

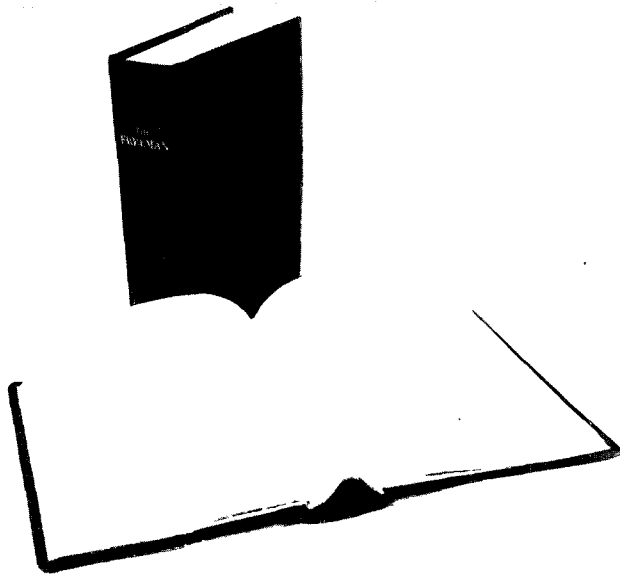
the Freeman

Ideas on Liberty

FEBRUARY 1980

**PRICE
CONTROLS
AND
SHORTAGES**

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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

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THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a non-political, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

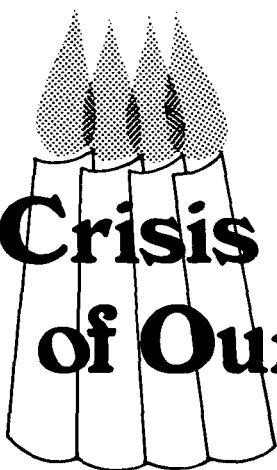
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Additional copies, postpaid: 3 for \$1.00; 10 or more, 25 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

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The Crisis of Our Age

It is not possible to define or circumscribe historical periods with any degree of exactitude. Rather must we make generalizations. We can say that the Golden Age of Greece was approximately from 500 to 200 B.C. When were the Dark Ages? That too is a period difficult to designate—perhaps from the 8th to the 14th century. When did the so-called Modern Age begin? Sometime after 1750, perhaps in 1776 with the invention of the steam engine and the publication of Adam Smith's *Wealth of Nations*, as well as the signing of the Declaration of Independence. But to fix on any given year is no doubt an oversimplification.

Dr. Norman S. Ream is pastor of the First Congregational Church, Wauwatosa, Wisconsin. This article is from his sermon of October 14, 1979.

It is even more difficult to deal with our own age. When we are so close to something it is impossible to assess it with a great degree of accuracy. Ours has, however, already been nominated as the Aspirin Age, the Age of Anxiety, and the Atomic Age, among others. We can only generalize about when our age began and no one knows when it will end. There are many, however, who are exceedingly fearful of how it will end.

There is another name that could be given to our age and unfortunately it too is a name implying that you and I and many who preceded us have not done very well with our Christian Stewardship. Would that we could call ours an age of enlightenment, or an age of new renaissance. But even the most op-

timistic would be hard put to make such descriptions believable.

I would suggest that ours could be defined as an age of moral disintegration—a time during which all the old and generally accepted standards for human behavior began to crumble and to fall apart. Where once there was general agreement as to what was right and wrong, moral and immoral, good and bad, now we are a people seemingly almost hopelessly divided on such issues. We will not admit that this is the result of our moral myopia, however, but would rather insist that we are just more liberal, more tolerant and more understanding than people used to be. But if a society is to be judged by its fruits, as Jesus said a tree was to be judged—and by implication individuals—then our society would seem to be in an extremely precarious condition.

"Situational Ethics"

Ours is a society which has adopted "situational ethics" with a vengeance. What is right is what each person thinks is right. In any society where that is generally so, then, in that society there is no way of making valid judgments about human behavior, and no one form of behavior can be defended as being better than any other. No doubt the widespread belief in egalitarianism is in part responsible for such a

state of moral anarchy. If we are all equal in all ways, then the morality of a saint is no better than that of a member of the Mafia.

Anarchy and chaos are always the consequence of a loss of order in society. Because, by man's very nature, he cannot long live without order, when the situation gets bad enough he will turn to any kind of order as being better than none. What is then offered him is an order imposed by force. He finds himself in a totalitarian society where order, civil and moral, is imposed by the will of the omnipotent few.

One need only read the two opening books of the Old Testament to discover that mankind always teeters between anarchy and order, between barbarism and morality. Moses had a terrible time trying to keep his people loyal and faithful to the moral order God had revealed to him. But the Ten Commandments were not new and unique. They were preceded by the code of Hammurabi. Wherever there has been any semblance of civilization there has been—there has had to be—some kind of generally accepted moral order, or an imposed one. Men do not survive in community by instinct alone. And without community there is little, if any, progress. When a community loses its principles, its moral guidelines, then it begins to disintegrate.

Two philosophers have written a

book entitled *Personality and the Good*. Their names are Bertocci and Millard and this is what they say:

A human being will not accept chaos. When he can no longer cope with it he begins to get sick, both physically and mentally. When chaos has won out he is dead. But as long as he is alive he is seeking to reduce chaos in some way or other.

Lack of Moral Discipline

A French scientist by the name of J. Rostand has observed that "science has made us gods before we were even worthy of being men." We have great means at our disposal but very little meaning, tremendous power but a lack of purpose. The primary need in modern society, contrary to what we read so much of in the media, is not the need for natural resources; oil, or other material things. What we desperately need is not someone to tell us what we ought to do, but someone to show us what we ought to be, not someone who will tell us how to build a brave new world, but someone who will show us how to be new men and new women. What we need most requires a moral and a spiritual discipline, and that is the area where modern man is so sadly lacking.

I am convinced that is not only what is needed, but by our finest young people that is precisely what is most desired, whether they can

define it or not. Let me share a quotation from a former liberal modernist who has seen the light and is now a moral and spiritual traditionalist. Irving Kristol is his name. He is a professor at New York University and a frequent contributor to the *Wall Street Journal*. He says this:

Young people do not want to hear that the church is becoming modern. Go tell the young people that the message of the church is to wear sack cloth and ashes and to walk on nails to Rome, and millions would do it. . . . Young people are looking for religion so desperately that they are inventing new ones; old religions are pretty good. New ones are being invented because the churches capitulated to modernity at the very time when the rebellious, gnostic, self-confident spirit of modernity was entering a major crisis and was moving toward its own discreditation.

It is in the youth that we see most clearly the reality that men cannot live happily in a state of moral chaos. They do not live by bread alone. They require and they desire rules, standards, principles, to which the majority will adhere and which will give them a sense of oneness as they pursue a high and worthy goal.

Now, these rules, standards and principles must have a source, and only if that source is believed to be beyond the puny mind of man will it have any objective validity. The Hebrew-Christian tradition affirms

the source of all moral validity to be God. Out of God's love for man; out of God's plan and purpose for him, comes the moral law. It has no ulterior motive nor any selfish purpose. It is meant to enhance man's eternal well-being, but it also enhances his temporal state as well.

Success Requires Character

Let me offer the simplest of illustrations, one which has been in my mind for many years. Who makes the most successful salesman in the long run? Is it the man who lies and cheats and steals? Remember, I said "in the long run". To be sure, in the short run, you may get a big order by sharp practice, but will you get any repeat business? The most successful salesman is the one who is trusted because he is honest, he is sincere, he is a man of character. And what is true in sales is true in every other area of life. These values promote order and trust. Lack of them leads to chaos and anarchy because men and women become constantly suspicious of one another. Which kind of world would you prefer to live in?

A short time ago I received a mild rebuke for not preaching more Biblically oriented sermons. I do not conceive how any sermon could be more Biblically oriented than this one. It's what the Bible is all about from start to finish. God loves you. Because he loves you he has a goal

and a purpose for you. To have you attain that goal and purpose he has given you a Way in which to walk. Here in the Old Testament are Ten Commandments to which you must adhere if you would walk in that way. Here in the New Testament are Two Commandments to direct your path—love God with all of your being and love your neighbor as yourself. How do you do that? Read the Sermon on the Mount—forgive endlessly, turn the other cheek, go the second mile, serve without thought of reward, do good to those who despise and persecute you. But most important of all, we have in the New Testament a person who reveals to us by his example what each of us can become.

All Christian morality is based on God's love. Why is abortion an evil thing? Because God loves that little child he created, but also because God loves you and does not want you to do anything that would destroy the great potential for good that is within you.

These Christian values are ultimate values. I listened to a professor of economics recently. He was speaking to foremen and supervisors of a large Wisconsin corporation. He knew I was present and that I was a minister. He mentioned the fact and prefaced one of his remarks by suggesting that I might not agree with him. He was right. I didn't, for what he said was, "Moral-

ity is determined by the economic environment." I would agree that morality—ultimate truth about human action—is discovered in the marketplace, but it is not determined there. It was determined a long time ago in the mind of God when he considered the end and the goal he desired man to achieve. The market may motivate man to act morally or immorally, but it does not determine right and wrong, good and evil. God has determined that.

You and I live, I am afraid, in a time of moral confusion bordering on moral chaos. What can we do

about it? We can live morally ourselves. We can advocate morality to others and defend it when it is attacked. We can pray that God will reveal the truth about morality to enough men and women that our own civilization may be saved before it goes the way of so many that have preceded it.

One thing more, we can be committed to the teaching and preserving of the moral principles taught by Jesus Christ and without which no free and worthwhile social order can survive. ☸

A Worthy National Goal

WHETHER man's destiny is forced or free; whether he is a robot product of his environment or whether he can shape his environment; whether he is a moral, intelligent being who should be left free to plan his own life or whether he should be considered a pawn, to be planned by the state—these are among the most important questions of our time. Several years ago, it was the fashion to project for America so-called national goals or purposes; a rather futile undertaking because America, like any free society, is many million purposes—all combining toward end results far richer and finer than any totalitarian state has produced.

But it would be a worth-while national goal to rekindle in American public opinion those attitudes and responses—social, economic, and moral—appropriately based on the assumption that man is internally free and, regardless of environment, able to shape his life, for better or for worse.

WILLIAM HENRY CHAMBERLIN,
"Man's Destiny: Forced or Free?"

IDEAS ON



LIBERTY

PRICE CONTROLS AND SHORTAGES

PRICE controls are advocated as a method of controlling inflation. People assume that inflation means rising prices and that it exists only when and to the extent that businessmen raise their prices. It appears to follow, on this view, that inflation would not exist if price increases were simply prohibited by price controls.

Actually, this view of inflation is utterly naive. Rising prices are merely a leading symptom of inflation, not the phenomenon itself. Inflation can exist, and, indeed, accelerate, even though this particular symptom is prevented from appearing. Inflation itself is not rising

prices, but an unduly large increase in the quantity of money, caused, almost invariably, by the government. In fact, a good definition of inflation would be, simply: an increase in the quantity of money caused by the government. Rising prices as a chronic social problem are a consequence of governments overthrowing the use of gold and silver as money and putting in their place unbacked paper currencies and checking deposits whose quantity can be increased without limit and virtually without cost.

The imposition of price controls to deal with inflation is as illogical as would be an attempt to deal with expanding pressure in a boiler by means of manipulating the needle in the boiler's pressure gauge. It is no less self-destructive, as well. Prices are equivalent to an instrument

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This article is reprinted by permission from his new book, also reviewed in this issue, *The Government Against the Economy*.

panel on the basis of which everyone plans his economic activities and which enables the plans of each individual to be harmoniously adjusted to the plans of all other individuals participating in the economic system.

The free market is a truly awe-inspiring complex of relationships in which the rational self-interest of individuals unites all industries, all markets, all occupations, all production, and all consumption into a harmonious, progressing system serving the well-being of all who participate in it.

All of this is what price controls destroy.

Controls Cause Shortages

The one consequence of price controls that is the most central and the most fundamental and important from the point of view of explaining all of the others is the fact that *price controls cause shortages*.

A shortage is an excess of the quantity of a good buyers are seeking to buy over the quantity sellers are willing and able to sell. In a shortage, there are people willing and able to pay the controlled price of a good, but they cannot obtain it. The good is simply not available to them. Experience of the gasoline shortage of the winter of 1974 should make the concept real to everyone. The drivers of the long lines of cars all had the money that

was being asked for gasoline and were willing, indeed, eager, to spend it for gasoline. Their problem was that they simply could not obtain the gasoline. They were trying to buy more gasoline than was available.

The concept of a shortage is not the same thing as the concept of a scarcity. An item can be extremely scarce, like diamonds, Rembrandt paintings, and so on, and yet no shortage exist. In a free market the effect of such a scarcity is a high price. At the high price, the quantity of the good demanded is levelled down to equality with the supply available, and no shortage exists. Anyone willing and able to pay the free-market price can buy whatever part of the supply he wishes; the height of the market price guarantees it, because it eliminates his competitors. It follows that however scarce a good may be, the only thing that can explain a shortage of it is a price control, not a scarcity. It is a price control that prevents the price of a scarce good from being raised by the self-interest of the buyers and sellers to its free-market level and thus reducing the quantity of the good demanded to equality with the supply of the good available.

Of course, if a price control on something exists, and a scarcity of it develops or grows worse, the effect will be a shortage, or a worsening of the shortage. Scarcities can cause

shortages, or worsen them, *but only in the context of price controls*. If no price control existed, the development or worsening of a scarcity would not contribute to any shortage; it would simply send the price higher.

Shortage Amidst Abundance

It should be realized that a shortage can exist despite a great physical *abundance* of a good. For example, we could easily develop a severe shortage of wheat in the United States with our present, very abundant supplies, or even much larger supplies. This is because the quantity of wheat demanded depends on its price. If the government were to roll back the price of wheat sufficiently, it would create a major additional demand—not only a larger export demand, but a larger demand for raising cattle and broilers, making whiskey, and perhaps for many other employments for which one does not presently think of using wheat, because of its price. In other words, no matter how much wheat we now produce or might produce in the future, we could have a shortage of wheat, because at an artificially low price we could create a demand for an even larger quantity.

To the degree that the controlled price is below the potential free-market price, buyers judge that they can afford more of the good with the same monetary wealth and income.

They judge that they can carry its consumption to a point of lower marginal importance. In this way, the quantity of the good demanded comes to exceed the supply available, whether that supply is scarce or abundant.

Price controls also reduce supply, which intensifies the shortages they create.

In the case of anything that must be produced, the quantity supplied falls if a price control makes its production unprofitable or simply of less than average profitability.

Squeezing Marginal Producers

It is not necessary that a price control make production unprofitable or insufficiently profitable to *all* producers in a field. Production will tend to fall as soon as it becomes unprofitable or insufficiently profitable to the highest-cost or *marginal* producers in the field. These producers begin to go out of business or at least to operate on a smaller scale. Their place cannot be taken by the more efficient producers, because the same price control that drives them out of business restricts the profits of the more efficient producers and deprives them of the incentive and also the capital required for expansion. Indeed, the tendency is eventually for even the most efficient producers to be unable to maintain operations and to be driven out of business.

For example, the price controls on oil have held down the supply of oil. They have not yet totally destroyed the supply of oil, but they have discouraged the development of high-cost sources of supply, such as oil from shale rock and even from the continental shelf in some instances. They have also made the more intensive exploitation of existing oil fields unprofitable, which, it is estimated, could be made to yield from one-third to two-thirds more oil over their lives by the adoption of such methods as thermal or chemical flooding, sometimes known as "tertiary recovery." At the same time, in restricting the profits from the lower-cost oil deposits, price controls have held down both the incentives to discover and develop new such deposits and the capital necessary to the oil companies for expanded oil operations of any type.

Rent Controls

Rent controls on housing that has already been constructed provide a similar example of the destruction of supply. As inflation drives up the operating costs of housing—namely, such costs as fuel, maintenance, and minor repairs—more and more landlords of rent-controlled buildings are forced to abandon their buildings and leave them to crumble. The reason is that once the operating costs exceed the frozen rents, continued ownership and operation of a build-

ing become a source merely of fresh losses, over and above the loss of the capital previously invested in the building itself.

This destruction of the housing supply starts with the housing of the poor and then spreads up the social ladder. It starts with the housing of the poor because the operating costs of such housing are initially so low that they leave relatively little room for further economies. For example, there are no doormen to eliminate and therefore no doormen's salaries to save. Also, the profit margins on such housing (i.e., profits as a percentage of rental revenues) are the lowest to begin with, because the land and the buildings are the least valuable and therefore the amount of profit earned is correspondingly low. As a result, the housing of the poor is abandoned first, because it provides the least buffer between rising operating costs and frozen rents.

A price control reduces supply whenever it is imposed in a local market and makes that market uncompetitive with other markets. In such a case, the local market is prevented from drawing in supplies from other areas, as was the Northeast and the United States as a whole during the Arab oil embargo.

In exactly the same way, in the winter of 1977, price controls on natural gas prevented areas of the United States suffering freezing

weather from bidding for additional supplies from the producing regions in the South and Southwest. Natural gas shipped across state lines was controlled by the Federal Power Commission at a maximum of \$1.42 per thousand cubic feet. Natural gas sold within the states where it was produced, and thus outside the jurisdiction of the FPC and free of price controls, was selling at \$2.00 per thousand cubic feet, with lower costs of transportation besides. It was therefore much more profitable to sell natural gas in the states where it was produced, such as Texas and Louisiana, than in such states as New Jersey or Pennsylvania.

Export Policies Affected

A price control not only prevents a local market from drawing in supplies from elsewhere, but it can also cause a local market that normally exports, to export excessively. In this case, as supplies are drawn out, the price control prevents the people in the local market from bidding up the price and checking the outflow.

This phenomenon occurred in this country in 1972 and 1973. Our price controls on wheat, soybeans, and other products made possible an unchecked exportation that jeopardized domestic consumption and led to an explosion of prices each time the controls were taken off, in Presi-

dent Nixon's succession of on-again, off-again "phases."

In this instance, the fall in the value of the dollar in terms of foreign currencies played a critical role. When President Nixon imposed price controls in August of 1971, he also took steps to devalue the dollar by 10 percent. Over the following two years, the dollar continued to fall in terms of foreign currencies and in 1973 was formally devalued a second time. The fall in the dollar's foreign exchange value meant a lower price of dollars in terms of marks, francs, and other currencies. Since the prices of our goods were frozen, a lower price of dollars meant that all of our goods suddenly became cheaper to foreigners. As a result, they began buying in much larger quantities—especially our agricultural commodities. As they began buying, domestic buyers were prevented by price controls from outbidding them for the dwindling supplies. As a result, vast accumulated agricultural surpluses were swept out of the country, and domestic food supplies were threatened, which is why prices skyrocketed each time the controls were taken off.

The fact that price controls jeopardize supplies in markets that export leads to embargoes against further exports, as occurred in this country in the summer of 1973, when we imposed an embargo on the

export of various agricultural commodities. In addition, price controls in markets that must import make such markets helpless in the face of embargoes imposed by others, as we were made helpless in the face of the Arab oil embargo. It follows that in degree that countries impose price controls, they must fear and hate each other. Each such country must fear the loss of vital supplies to others, as the result of excessive exportation, and the deprivation of vital supplies from others, as the result of their embargoes and its helplessness to cope with them. Each such country makes itself hated by its own embargoes and hates the countries that impose embargoes against it. Our embargo on agricultural products in 1973 did not endear us to the Japanese. And there was actual talk of military intervention against the Arabs. Simply put, price controls breed war. A free market is a necessary condition of peace.

Reserves Exhausted

A price control reduces supply whenever it is imposed on a commodity of the kind that must be stored for future use. The effect of a price control in such a case is to encourage a too rapid rate of consumption of the commodity and thus to reduce supplies available for the future. As we have seen, buyers are led to buy too rapidly by the arti-

cially low price, and sellers are led to sell too rapidly, since the fixity of the controlled price does not enable them to cover storage costs and earn the going rate of profit in holding supplies for future sale.

If the buying public is unaware of the impending exhaustion of supplies, the effect of sellers placing their supplies on the market right away is to depress the current market price below the controlled price. This process tends to go on until the current market price falls far enough below the controlled price, so that once again it has sufficient room to rise in the months ahead to be able to cover storage and interest costs. The resulting structure of prices guarantees the premature exhaustion of supplies.

Under conditions such as those described above, the buying public sooner or later becomes aware of the fact that supplies will run out. At that point, demand skyrockets, as the buyers scramble for supplies. As soon as this occurs, and it may be very early, the larger supplies that sellers are encouraged to place on the market under price controls are not sufficient to depress the market price below the controlled price, because they are snapped up by the speculative buying of the public, which is aware of the shortage to come. The consequence of the speculative buying of the public is that the item disappears from the

market right away; it is hoarded.

The hoarding of the buying public is not responsible for the existence of shortages. The public hoards *in anticipation* of shortages caused by the price controls. The public's speculative demand cannot even be blamed for hastening the appearance of a shortage. That too must be blamed on price controls, because in the absence of the controls the additional demand of the public would simply raise prices; at the higher prices, the rise in the quantity of goods demanded would be cut back; prices would rise to whatever extent necessary to level down the quantity demanded to equality with the supply available.

Speculative Influence

Speculation on the part of the suppliers of goods is likewise blameless for the existence of shortages. Contrary to popular belief, price controls do not give suppliers a motive to withhold supplies, but, as we have seen, an incentive to unload them too rapidly.

There is, of course, an important exception to the principle that price controls give sellers an incentive to sell their supplies too rapidly. This is the case in which the sellers are able to look forward to the repeal of the controls. In this case, a price control makes it relatively unprofitable to sell in the present, at the artificially low, controlled price, and

more profitable to sell in the future, at the higher, free-market price. In this case, sellers do have a motive to withhold supplies for future sale.

Even in this case, however, it is still the price control that is responsible for the existence of any shortage that develops or intensifies. In this case, the price control discriminates against the market in the present in favor of the market in the future; it prevents the market in the present from competing for supplies with the market in the future. Furthermore, in the absence of a price control, any build-up of supplies for sale in the future would simply be accompanied by a rise in prices in the present, which would prevent the appearance of a shortage, as we have seen repeatedly in previous discussion.

Finally, it should be realized that the withholding of supplies in anticipation of the repeal of a price control does not imply any kind of antisocial or evil action on the part of the suppliers. Price controls, as we have seen, lead to inadequate stocks of goods; in many cases, it is probable that the build-up of stocks in anticipation of the repeal of controls merely serves to restore stocks to a more normal level. Even if the build-up of stocks does become excessive, its effect later on, when the stocks are sold, is merely to further reduce the free-market price in comparison with what that price

would otherwise have been. In any event, any ill-effects that may result are entirely the consequence of price controls.

The Consumer's Interest

Sometimes, the question is raised as to what argument one could give to a consumer to convince him to be against price controls; especially what argument one could give to a tenant to convince him to be against rent controls. Our discussion of how price controls reduce supply indicates a very simple argument to give to any consumer against any price control. That is that if he wants something, he must be willing to pay the necessary price. It is a natural law—a fact of human nature—that a good or service can only be supplied if supplying it is both worthwhile to the suppliers and as worthwhile as any of the alternatives open to them. If the price is controlled below this point, then it is equivalent to a prohibition of supply. To command, for example, that apartments be supplied at rents that do not cover the costs of construction and maintenance, and the going rate of profit, is equivalent to commanding that buildings be built out of impossible materials like air and water rather than steel and concrete. It is to command construction in contradiction of the laws of nature. In the same way, to command that oil be sold less profitably in

New York than in Hamburg, say, or that natural gas be sold less profitably in Philadelphia than in Houston, is equivalent to commanding that these materials become drinkable and that water become burnable, for it is no less an act in contradiction of the nature of things.

Now it is simply absurd for a consumer who wants a good, to support a measure which makes its supply impossible. And that is what one should tell him. That is what the consumers themselves should tell the legislators who are busy enacting price-control laws for their alleged benefit. These would-be benefactors of the consumers are prohibiting the consumers from making it worthwhile for businessmen to supply them. They are destroying the businessmen. In effect, they are destroying the consumers' ability to find agents to act on their behalf. They are reducing the consumers to the point where if they want anything, they will have to produce it themselves, because price controls will make it unprofitable for anyone to supply it to them. Already, rent control has "benefitted" tenants to the point that it is becoming increasingly necessary if one wants an apartment to own it oneself: one must buy a "co-op" or a condominium. Price controls have made it increasingly difficult, and at times absolutely impossible, to buy oil or natural gas. If the legislators

are to go on "benefitting" the consumers long enough with their price controls, they will benefit them all the way back to the economic self-sufficiency that was the leading characteristic of feudalism.

"The reader of this book may very well finish it with a radically different understanding of such events as the oil and natural gas crises, chronic power failures, and the decline of rental housing in places like New York City."

—From the introduction by
William E. Simon

The ignorance that underlies the destruction of our economic system is made possible by a protective shell of envy and resentment. People take the attitude that somehow the utilities, the landlords, the oil industry, or whoever, are "already rich enough," and that they'll be damned if they'll let them get any richer. So, on with the price controls. That is the beginning and the end of their thinking on the subject, and they just don't care to think any further. They are eager to accept high nominal profits as a confirmation of their view that the industries concerned are "rich enough," and to let it go at that.

However, the simple fact is that

none of these industries is rich enough, and in preventing them from becoming richer, or even staying as rich as they are, people foolishly harm themselves. None of these industries is rich enough for the simple reason that we really do not have enough power plants, enough good apartment buildings, or enough oil wells and oil refineries. Speaking for myself, as a consumer, I must say that I would like Con Edison, the landlords of New York City, the oil industry, and so on, all to be worth many more billions than they are presently worth. I would benefit from that fact. If Con Ed had more power plants, my supply of electricity would be assured. If the landlords had more and better buildings, I would have a better apartment. If the oil industry had more wells and refineries, I would have a more abundant and secure supply of oil products.

If one thinks about it, I believe, nothing could be more absurd than consumers in a capitalist economy attacking the wealth of their suppliers. That wealth serves *them*—they are the physical beneficiaries of it. All of the wealth of the utilities, the landlords, the oil companies—where is it? It is in power plants and power lines, apartment buildings, oil wells and oil refineries. And whom does it actually, physically, serve? It serves

the consumers. It serves us—all of us. We have a selfish interest in the preservation and increase of that wealth. If we deprive Con Ed of a power plant, we deprive ourselves of power. If we deprive our landlords of more and better buildings, we deprive ourselves of apartments. If we deprive the oil industry of wells and refineries, we deprive ourselves of gasoline and heating oil.

Trust the Market

There is indeed a harmony of interests between the consumer and the producer under capitalism. Because of it, even if businessmen become cowardly and do not fight for their own interests, we, as consumers, must fight for them, and thereby for ourselves. For we have a selfish interest in being able to pay prices that make it profitable for businessmen to supply us. It is to our self-interest to pay utility rates, rents, oil prices, and so on, that enable the producers in these fields to keep their facilities intact and growing, and that make them want to supply us. And I must say that we do not have to worry about being charged unfairly in a free market, because any high profits that might be made from us are simply the incentive and the means to an expanded supply, and are generally made only because of special efficiency on the part of the producers who earn them. ©

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Robert E. Hood

"SWEET LAND OF LIBERTY"?

LIBERTY, freedom, justice, equality: these are a few of the words often used to define America. But each time I attempt to associate these qualities with "America is" I find myself more inclined to use "America was". America is the sum of its people, its government, and its national character. Our government is the people; we elect it and we are directly responsible for its actions. It is a reflection of our national character or lack of it.

How does one sing praises to a government that, having taxed its citizens to the bearable limit, proceeds to inflate the currency in order to finance its grandiose schemes? How does one applaud a government whose principal function has become the redistribution of the wealth and property of its citizens? How does one extol the virtues of a government which preaches human rights while it condones by its actions the most flagrant violations of human rights all over the world and consistently abrogates the individual rights of its own people? How does one glorify a government which at every turn takes steps to reward slothfulness, indolence, and conformity at the expense of industry, initiative, and creativity? How does one honor a government which places political expediency above the very principles upon which it was founded?

America was great. Today America is less great. Tomorrow America will cease to be great—if it continues its present course. Must we forever bungle our way through one unworkable social plan and government edict after another? When will we learn to separate the rational from the absurd; justice from injustice; principle from expediency; the moral from the immoral?

It was not always so. America has risen from an agricultural society of tedious hand labor to a technological monolith of

Mr. Hood, a businessman in Meredith, New Hampshire, formerly served in the State Legislature.

magnificent proportion. It has provided a standard of living for all which was unknown to previous generations. It has accomplished all this by the creative genius of mankind in an atmosphere of freedom and individual responsibility; not by the beneficence of a government whose only legitimate contribution is the protection of individual rights and property. America has proved beyond doubt the efficacy of a system whereby each individual is free to pursue his own goals and enjoy the benefits produced by his own labor, for only freedom is compatible with human nature and man's infinite range of interests and abilities. It alone is conducive to the fulfillment of man's enormous potential.

If America is to remain great it must reaffirm and reestablish the principles upon which it was created. We must restore the "free" in free enterprise and learn again the limitations of government as the Founding Fathers once knew them. We must understand that liberty and freedom mean the right to pursue one's own goals and the right to earned property without government intervention. Freedom does not mean that we should be free of individual responsibility or free of the necessity of earning our own way. We must understand that justice and equality mean equality before the law without regard for color, creed, or sex. Justice does not mean retribution and unearned privilege or favor. We must no longer subordinate the inalienable rights of all to the whims and wishes of an undeserving few.

America was founded on the principles of freedom, not patronage and subsidy. America was built by the creativity and industry of its people, not by its government. America has endured by the strength and integrity of Americans, not by the will of its leaders. America will continue to flourish only by a rededication to its original ideals, not by hopeless dependence on political solutions. No other nation was ever founded on such a moral base and no other nation ever had such glorious potential. In the civilized world no other people have ever been so uniquely blessed as we.



Interventionism

A famous, very often quoted phrase says: "That government is best, which governs least." I do not believe this to be a correct description of the functions of a good government. Government ought to do all the things for which it is needed and for which it was established. Government ought to protect the individuals within the country against the violent and fraudulent attacks of gangsters, and it should defend the country against foreign enemies. These are the functions of government within a free system, within the system of the market economy.

Under socialism, of course, the government is totalitarian, and there is nothing outside its sphere and its jurisdiction. But in the market economy the main task of the government is to protect the smooth

functioning of the market economy against fraud or violence from within and from outside the country.

People who do not agree with this definition of the functions of government may say: "This man hates the government." Nothing could be farther from the truth. If I should say that gasoline is a very useful liquid, useful for many purposes, but that I would nevertheless not drink gasoline because I think that would not be the right use for it, I am not an enemy of gasoline, and I do not hate gasoline. I only say that gasoline is very useful for certain purposes, but not fit for other purposes. If I say it is the government's duty to arrest murderers and other criminals, but not its duty to run the railroads or to spend money for useless things, then I do not hate the

government by declaring that it is fit to do certain things but not fit to do other things.

It has been said that under present-day conditions we no longer have a free market economy. Under present-day conditions we have something called the "mixed economy." And for evidence of our "mixed economy," people point to the many enterprises which are operated and owned by the government. The economy is mixed, people say, because there are, in many countries, certain institutions—like the telephone, telegraph, and railroads—which are owned and operated by the government.

That some of these institutions and enterprises are operated by the government is certainly true. But this fact alone does *not* change the character of our economic system. It does not even mean there is a "little socialism" within the otherwise nonsocialist, free market economy. For the government, in operating these enterprises, is subject to the supremacy of the market, which means it is subject to the supremacy of the consumers. The government—if it operates, let us say, post offices or railroads—has to hire people, who have to work in these enterprises. It also has to buy the raw materials and other things that are needed for the conduct of these enterprises. And on the other hand, it "sells" these services or commodi-

ties to the public. Yet, even though it operates these institutions using the methods of the free economic system, the result, as a rule, is a deficit. The government, however, is in a position to finance such a deficit—at least the members of the government and of the ruling party believe so.

It is certainly different for an individual. The individual's power to operate something with a deficit is very limited. If the deficit is not very soon eliminated, and if the enterprise does not become profitable (or at least show that no further deficit and losses are being incurred) the individual goes bankrupt and the enterprise must come to an end.

But for the government, conditions are different. The government can run at a deficit, because it has the power to *tax* people. And if the taxpayers are prepared to pay higher taxes in order to make it possible for the government to operate an enterprise at a loss—that is, in a less efficient way than it would be done by a private institution—and if the public will accept this loss, then of course the enterprise will continue.

Intervention Breeds Inflation

In recent years, governments have increased the number of nationalized institutions and enterprises in most countries to such an extent that the deficits have grown far beyond the amount that could be

PHOTO BY DAVID JARRETT



Ludwig von Mises, 1881-1973, was one of the great defenders of a rational economic science, and perhaps the single most creative mind at work in this field in our century.

Found among the papers of Dr. Mises were transcripts of lectures he delivered in Argentina in 1959. These have now been edited by his widow and are available as a Regnery/Gateway paperbacked book. This article, one of the lectures, is here reprinted by permission of the publishers. All rights reserved.

The book, *Economic Policy: Thoughts for Today and Tomorrow*, also may be purchased at \$4.95 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

collected in taxes from the citizens. What happens then is not the subject of today's lecture. It is inflation, and I shall deal with that tomorrow. I mentioned this only because the mixed economy must not be confused with the problem of *interventionism*, about which I want to talk tonight.

What is interventionism? Interventionism means that the government does not restrict its activity to the preservation of order, or—as people used to say a hundred years ago—to “the production of security.” Interventionism means that the government wants to do more. It wants to interfere with market phenomena.

If one objects and says the government should not interfere with

business, people very often answer: “But the government necessarily always interferes. If there are policemen on the street, the government interferes. It interferes with a robber looting a shop or it prevents a man from stealing a car.” But when dealing with interventionism, and defining what is meant by interventionism, we are speaking about government interference with the market. (That the government and the police are expected to protect the citizens, which includes businessmen, and of course their employees, against attacks on the part of domestic or foreign gangsters, is in fact a normal, necessary expectation of any government. Such protection is not an intervention, for the government's only legi-

timate function is, precisely, to produce security.)

What we have in mind when we talk about interventionism is the government's desire to do *more* than prevent assaults and fraud. Interventionism means that the government not only fails to protect the smooth functioning of the market economy, but that it interferes with the various market phenomena; it interferes with prices, with wage rates, interest rates, and profits.

The government wants to interfere in order to force businessmen to conduct their affairs in a different way than they would have chosen if they had obeyed only the consumers. Thus, all the measures of interventionism by the government are directed toward restricting the supremacy of consumers. The government wants to arrogate to itself the power, or at least a part of the power, which, in the free market economy, is in the hands of the consumers.

Let us consider one example of interventionism, very popular in many countries and tried again and again by many governments, especially in times of inflation. I refer to price control.

Governments usually resort to price control when they have inflated the money supply and people have begun to complain about the resulting rise in prices. There are many famous historical examples of

price control methods that failed, but I shall refer to only two of them because, in both these cases, the governments were really very energetic in enforcing or trying to enforce their price controls.

Price Controls in Ancient Rome and during the French Revolution

The first famous example is the case of the Roman Emperor Diocletian, very well-known as the last of those Roman emperors who persecuted the Christians. The Roman emperor in the second part of the third century had only one financial method, and this was currency debasement. In those primitive ages, before the invention of the printing press, even inflation was, let us say, primitive. It involved debasement of the coinage, especially the silver. The government mixed more and more copper into the silver until the color of the silver coins was changed and the weight was reduced considerably. The result of this coinage debasement and the associated increase in the quantity of money was an increase in prices, followed by an edict to control prices. And Roman emperors were not very mild when they enforced a law; they did not consider death too mild a punishment for a man who had asked for a higher price. They enforced price control, but they failed to maintain the society. The result was the disintegra-

tion of the Roman Empire and the system of the division of labor.

Then, 1500 years later, the same currency debasement took place during the French Revolution. But this time a different method was used. The technology for producing money was considerably improved. It was no longer necessary for the French to resort to debasement of the coinage: they had the printing press. And the printing press was very efficient. Again, the result was an unprecedented rise in prices. But in the French Revolution maximum prices were not enforced by the same method of capital punishment which the Emperor Diocletian had used. There had also been an improvement in the technique of killing citizens. You all remember the famous Doctor J. I. Guillotin (1738-1814), who invented the guillotine. Despite the guillotine the French also failed with their laws of maximum price. When Robespierre himself was carted off to the guillotine the people shouted, "There goes the dirty Maximum."

I wanted to mention this, because people often say: "What is needed in order to make price control effective and efficient is merely more brutality and more energy." Now certainly, Diocletian was very brutal, and so was the French Revolution. Nevertheless, price control measures in both ages failed entirely.

Now let us analyze the reasons for

this failure. The government hears people complain that the price of milk has gone up. And milk is certainly very important, especially for the rising generation, for children. Consequently, the government declares a maximum price for milk, a maximum price that is lower than the potential market price would be. Now the government says: "Certainly we have done everything needed in order to make it possible for poor parents to buy as much milk as they need to feed their children."

But what happens? On the one hand, the lower price of milk increases the demand for milk; people who could not afford to buy milk at a higher price are now able to buy it at the lower price which the government has decreed. And on the other hand some of the producers, those producers of milk who are producing at the highest cost—that is, the marginal producers—are now suffering losses, because the price which the government has decreed is lower than their costs. This is the important point in the market economy.

Milk Production Curbed

The private entrepreneur, the private producer, cannot take losses in the long run. And as he cannot take losses in milk, he restricts the production of milk for the market. He may sell some of his cows for the slaughter house, or instead of milk

he may sell some products made out of milk, for instance sour cream, butter or cheese.

Thus the government's interference with the price of milk will result in less milk than there was before, and at the same time there will be a greater demand. Some people who are prepared to pay the government-decreed price cannot buy it. Another result will be that anxious people will hurry to be first at the shops. They have to wait outside. The long lines of people waiting at shops always appear as a familiar phenomenon in a city in which the government has decreed maximum prices for commodities that the government considers as important. This has happened everywhere when the price of milk was controlled. This was always prognosticated by economists. Of course, only by sound economists, and their number is not very great.

But what is the result of the government's price control? The government is disappointed. It wanted to increase the satisfaction of the milk drinkers. But actually it has dissatisfied them. Before the government interfered, milk was expensive, but people could buy it. Now there is only an insufficient quantity of milk available. Therefore, the total consumption of milk drops. The children are getting less milk, not more. The next measure to which the government now resorts,

is rationing. But rationing only means that certain people are privileged and are getting milk while other people are *not* getting any at all. Who gets milk and who does not, of course, is always very arbitrarily determined. One order may determine, for example, that children under four years old should get milk, and that children over four years, or between the age of four and six should get only half the ration which children under four years receive.

Feed Prices Controlled

Whatever the government does, the fact remains, there is only a smaller amount of milk available. Thus people are still more dissatisfied than they were before. Now the government asks the milk producers (because the government does not have enough imagination to find out for itself): "Why do you not produce the same amount of milk you produced before?" The government gets the answer: "We cannot do it, since the costs of production are higher than the maximum price which the government has established." Now the government studies the costs of the various items of production, and it discovers one of the items is fodder.

"Oh," says the government, "the same control we applied to milk we will now apply to fodder. We will determine a maximum price for fod-

der, and then you will be able to feed your cows at a lower price, at a lower expenditure. Then everything will be all right; you will be able to produce more milk and you will sell more milk."

But what happens now? The same story repeats itself with fodder, and as you can understand, for the same reasons. The production of fodder drops and the government is again faced with a dilemma. So the government arranges new hearings, to find out what is wrong with fodder production. And it gets an explanation from the producers of fodder precisely like the one it got from the milk producers. So the government must go a step farther, since it does not want to abandon the principle of price control. It determines maximum prices for producers' goods which are necessary for the production of fodder. And the same story happens again.

Other Products Affected

The government at the same time starts controlling not only milk, but also eggs, meat, and other necessities. And every time the government gets the same result, everywhere the consequence is the same. Once the government fixes a maximum price for consumer goods, it has to go farther back to producers' goods, and limit the prices of the producers' goods required for the production of the price-controlled

consumer goods. And so the government, having started with only a few price controls, goes farther and farther back in the process of production, fixing maximum prices for all kinds of producers' goods, including of course the price of labor, because without wage control, the government's "cost control" would be meaningless.

Moreover, the government cannot limit its interference into the market to only those things which it views as vital necessities, like milk, butter, eggs, and meat. It must necessarily include luxury goods, because if it did not limit *their* prices, capital and labor would abandon the production of vital necessities and would turn to producing those things which the government considers unnecessary luxury goods. Thus, the isolated interference with one or a few prices of consumer goods always brings about effects—and this is important to realize—which are even *less* satisfactory than the conditions that prevailed before: before the government interfered, milk and eggs were expensive; after the government interference they began to disappear from the market.

The government considered those items to be so important that it interfered; it wanted to increase the quantity and improve the supply. The result was the opposite: the isolated interference brought about a

condition which—from the point of view of the government—is even *more* undesirable than the previous state of affairs which the government wanted to alter. And as the government goes farther and farther, it will finally arrive at a point where all prices, all wage rates, all interest rates, in short, everything in the whole economic system, is determined by the government. And this, clearly, is *socialism*.

Controls After World War I

What I have told you here, this schematic and theoretical explanation, is precisely what happened in those countries which tried to enforce a maximum price control, where governments were stubborn enough to go step by step until they came to the end. This happened in the First World War, in Germany and England.

Let us analyze the situation in both countries. Both countries experienced inflation. Prices went up, and the two governments imposed price controls. Starting with a few prices, starting with only milk and eggs, they had to go farther and farther. The longer the war went on, the more inflation was generated. And after three years of war, the Germans—systematically as always—elaborated a great plan. They called it the *Hindenburg Plan*: everything in Germany considered to

be good by the government at that time was named after Hindenburg.

The Hindenburg Plan meant that the whole German economic system should be controlled by the government: prices, wages, profits . . . everything. And the bureaucracy immediately began to put this into effect. But before they had finished, the debacle came: the German empire broke down, the entire bureaucratic apparatus disappeared, the revolution brought its bloody results—things came to an end.

In England they started in the same way, but after a time, in the spring of 1917, the United States entered the war and supplied the British with sufficient quantities of everything. Therefore the road to socialism, the road to serfdom, was interrupted.

Hitler's Germany

Before Hitler came to power, Chancellor Brüning again introduced price control in Germany for the usual reasons. Hitler enforced it, even before the war started. For, in Hitler's Germany, there was no private enterprise or private initiative. In Hitler's Germany there was a system of socialism which differed from the Russian system only to the extent that the *terminology* and *labels* of the free economic system were still retained. There still existed "private enterprises," as they were called. But the owner was

no longer an entrepreneur, the owner was called a "shop manager" (Betriebsführer).

The whole of Germany was organized in a hierarchy of führers; there was the Highest Führer, Hitler of course, and then there were führers down to the many hierarchies of smaller führers. And the head of an enterprise was the *Betriebsführer*. And the workers of the enterprise were named by a word that, in the Middle Ages, had signified the retinue of a feudal lord: the *Gefolgschaft*. And all of these people had to obey the orders issued by an institution which had a terribly long name: *Reichsführer-wirtschaftsministerium*, at the head of which was the well-known fat man, named Goering, adorned with jewelry and medals.

And from this body of ministers with the long name came all the orders to every enterprise: what to produce, in what quantity, where to get raw materials and what to pay for them, to whom to sell the products and at what prices to sell them. The workers got the order to work in a definite factory, and they received wages which the government decreed. The whole economic system was now regulated in every detail by the government.

The *Betriebsführer* did not have the right to take the profits for himself; he received what amounted to a salary, and if he wanted to get more

he would, for example, say: "I am very sick, I need an operation immediately, and the operation will cost 500 Marks," then he had to ask the führer of the district (the *Gauführer* or *Gauleiter*) whether he had the right to take out more than the salary which was given to him. The prices were no longer prices, the wages were no longer wages, they were all quantitative terms in a system of socialism.

Now let me tell you how that system broke down. One day, after years of fighting, the foreign armies arrived in Germany. They tried to preserve this government-directed economic system, but the brutality of Hitler would have been necessary to preserve it and, without this, it did not work.

Britain in World War II

And while this was going on in Germany, Great Britain—during the Second World War—did precisely what Germany did: starting with the price control of some commodities only, the British government began step by step (in the same way Hitler had done in peacetime, even before the start of the war) to control more and more of the economy until, by the time the war ended, they had reached something that was almost pure socialism.

Great Britain was not brought to socialism by the Labour government which was established in 1945.

Great Britain became socialist *during* the war, through the government of which Sir Winston Churchill was the prime minister. The Labour government simply retained the system of socialism which the government of Sir Winston Churchill had already introduced. And this in spite of great resistance by the people.

The nationalizations in Great Britain did not mean very much; the nationalization of the Bank of England was merely nominal, because the Bank of England was already under the complete control of the government. And it was the same with the nationalization of the railroads and the steel industry. The "war socialism," as it was called—meaning the system of interventionism proceeding step by step—had already virtually nationalized the system.

The difference between the German and British systems was not important since the people who operated them had been appointed by the government and in both cases they had to obey the government's orders in every respect. As I said before, the system of the German Nazis retained the labels and terms of the capitalistic free market economy. But they meant something very different: there were now only governmental decrees.

This was also true for the British system. When the Conservative

party in Britain was returned to power, some of those controls were removed. In Great Britain we now have attempts from one side to retain controls and from the other side to abolish them. (But one must not forget that, in England, conditions are very different from conditions in Russia.) The same is true for other countries which depend on the importation of food and raw materials and therefore have to export manufactured goods. For countries depending heavily on export trade, a system of government control simply does not work.

Thus, as far as there is economic freedom left (and there is still substantial freedom in some countries, such as Norway, England, Sweden), it exists because of the *necessity to retain export trade*. Earlier, I chose the example of milk, not because I have a special preference for milk, but because practically all governments—or most of them—in recent decades, have regulated milk, egg or butter prices.

Rent Control

I want to refer, in a few words, to another example, and that is rent control. If the government controls rents, one result is that people who would otherwise have moved from bigger apartments to smaller ones when their family conditions changed, will no longer do so. For example, consider parents whose

children left home when they came into their twenties, married or went into other cities to work. Such parents used to change their apartments and take smaller and cheaper ones. This necessity disappeared when rent controls were imposed.

In Vienna, Austria, in the early twenties, where rent control was well-established, the amount of money that the landlord received for an average apartment under rent control was not more than twice the price of a ticket for a ride on the city-owned street cars. You can imagine that people did not have any incentive to change their apartments. And, on the other hand, there was no construction of new houses. Similar conditions prevailed in the United States after the Second World War and are continuing in many cities to this day.

One of the main reasons why many cities in the United States are in such great financial difficulty is that they have rent control and a resulting shortage of housing. So the government has spent billions for the building of new houses. But why was there such a housing shortage? The housing shortage developed for the same reasons that brought milk shortages when there was milk price control. That means: *when the government interferes with the market, it is more and more driven towards socialism.*

And this is the answer to those

people who say: "We are not socialists, we do not want the government to control everything. We realize this is bad. But why should not the government interfere a little bit with the market? Why shouldn't the government do away with some things which we do not like?"

These people talk of a "middle-of-the-road" policy. What they do not see is that the *isolated* interference, which means the interference with only one small part of the economic system, brings about a situation which the government itself—and the people who are asking for government interference—find worse than the conditions they wanted to abolish: the people who are asking for rent control are very angry when they discover there is a shortage of apartments and a shortage of housing.

But this shortage of housing was created precisely by government interference, by the establishment of rents below the level people would have had to pay in a free market.

There Is No Third System

The idea that there is a *third* system—between socialism and capitalism, as its supporters say—a system as far away from socialism as it is from capitalism but retains the advantages and avoids the disadvantages of each—is pure nonsense. People who believe there is such a mythical system can become really

poetic when they praise the glories of interventionism. One can only say they are mistaken. The government interference which they praise brings about conditions which they themselves do not like.

One of the problems I will deal with later is *protectionism*. The government tries to isolate the domestic market from the world market. It introduces tariffs which raise the domestic price of a commodity above the world market price, making it possible for domestic producers to form cartels. The government then attacks the cartels, declaring: "Under these conditions, anti-cartel legislation is necessary."

This is precisely the situation with most of the European governments. In the United States, there are yet other reasons for antitrust legislation and the government's campaign against the specter of monopoly.

It is absurd to see the government—which creates by its own intervention the conditions making possible the emergence of domestic cartels—point its finger at business, saying: "There are cartels, therefore government interference with business is necessary." It would be much simpler to avoid cartels by ending the government's interference with the market—an interference which makes these cartels possible.

The idea of government interference as a "solution" to economic

problems leads, in every country, to conditions which, at the least, are very unsatisfactory and often quite chaotic. If the government does not stop in time, it will bring on socialism.

Nevertheless, government interference with business is still very popular. As soon as someone does not like something that happens in the world, he says: "The government ought to do something about it. What do we have a government for? The government should do it." And this is a characteristic remnant of thought from past ages, of ages *preceding* modern freedom, modern constitutional government, before representative government or modern republicanism.

Omnipotent Government

For centuries there was the doctrine—maintained and accepted by everyone—that a king, an anointed king, was the messenger of God; he had more wisdom than his subjects, and he had supernatural powers. As recently as the beginning of the nineteenth century, people suffering from certain diseases expected to be cured by the royal touch, by the hand of the king. Doctors were usually better; nevertheless, they had their patients try the king.

This doctrine of the superiority of a paternal government, of the supernatural and superhuman pow-

ers of the hereditary kings gradually disappeared—or at least we thought so. But it came back again. There was a German professor named Werner Sombart (I knew him very well), who was known the world over, who was an honorary doctor of many universities and an honorary member of the American Economic Association. That professor wrote a book, which is available in an English translation, published by the Princeton University Press. It is available also in a French translation, and probably also in Spanish—at least I hope it is available, because then you can check what I am saying. In this book published in our century, not in the Dark Ages, “Sir” Werner Sombart, a professor of economics, simply says: “The Führer, our Führer”—he means, of course, Hitler—“gets his orders directly from God, the Führer of the Universe.”

I spoke of this hierarchy of the führers earlier, and in this hierarchy, I mentioned Hitler as the “Supreme Führer” . . . But there is, according to Werner Sombart, a still higher Führer, God, the Führer of the universe. And God, he wrote, gives His orders directly to Hitler. Of course, Professor Sombart said very modestly: “We do not know how God communicates with the Führer. But the fact cannot be denied.”

Now, if you hear that such a book can be published in the German language, the language of a nation which was once hailed as “the nation of philosophers and poets,” and if you see it translated into English and French, then you will not be astonished at the fact that even a little bureaucrat considers himself wiser and better than the citizens and wants to interfere with everything, even though he is only a poor little bureaucrat, and not the famous Professor Werner Sombart, honorary member of everything.

A Remedy?

Is there a remedy against such happenings? I would say, yes, there is a remedy. And this remedy is the power of the citizens; they have to prevent the establishment of such an autocratic regime that arrogates to itself a higher wisdom than that of the average citizen. This is the fundamental difference between freedom and serfdom.

The socialist nations have arrogated to themselves the term *democracy*. The Russians call their own system a People’s Democracy; they probably maintain that the people are represented in the person of the dictator. I think that *one* dictator, here in Argentina, was given a good answer. Let us hope that all other dictators, in other nations, will be accorded a similar response. ☉

Who Shall Carry My Load?

THE FREE MARKET seems to be gaining economic and political favor. But if this is to be more than a passing fad, the full implications of the term must be clearly grasped.

Those who will learn to understand the workings of a free market will find that it can exist to its fullest material advantage only in a society of individual independence and responsibility. A deeper penetration of the subject also brings recognition that any infringement of independent decision-making is not only unproductive in a material sense but is also immoral. It is immoral to place the load one is responsible for on the back of another without his willing consent.

Contrasting pictures emerge. One is an unfree, governmental-interference type of society. This is a society where each is required by government to carry on his back the load of all others—an awkward, nonproductive and painful way to function. Particularly is it nonproductive when those who are able and willing to produce the most in goods and services for themselves *and for others* are allotted the heaviest burdens, thus restricting their efforts.

On the other hand, a free market society is one in which each is solely responsible for his own load. Only insofar as his own judgment and conscience dictates does he share the burden of another. Unhampered, he finds that his expanded production can benefit himself only as it benefits others—a mighty important, but key difference—since his personal consumption is very minimal compared with the improved quality of life his production brings to all others.

In selecting which society I prefer, I may well ask, “Who shall carry my load?”

When measured by the most productivity for the benefit of all, the answer must be that of a *free market society*—no one, but me!

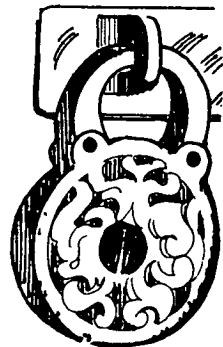
When measured by the moral principle of assuming my own responsibility, the answer must be that of a *free market society*—no one, but me!

Both demand that I carry my own load. To start, let me remove from others any of the burden of my responsibility now carried by them. ☸

Mr. Sparks is an executive of an Ohio manufacturing company.

Melvin D. Barger

CRIME: THE UNSOLVED PROBLEM



WHAT causes crime? Why do some individuals possess tendencies which lead them to commit acts of violence and predation: robberies, assaults, rape, and other felonies? What sets the habitual or occasional criminal apart from the mainstream of society? More important, what can be done to "change" criminals into productive, law-abiding citizens?

The theory that has partly governed public policy for many years is that crime is caused by an unjust society. A most eloquent spokesman for this point of view was Ramsey Clark, who served as assistant attorney general in the Kennedy Administration and attorney general in the Johnson Administration. Here's how Clark described the crime problem in his well-known 1970 book, *Crime in America*:

If we are to deal meaningfully with crime, what must be seen is the dehumanizing effect on the individual of slums, racism, ignorance and violence, of corruption and impotence to fulfill rights, of poverty and unemployment and idleness, of generations of malnutrition, of congenital brain damage and prenatal neglect, of sickness and disease, of pollution, of decrepit, dirty, ugly, unsafe, overcrowded housing, of alcoholism and narcotics addiction, of avarice, anxiety, fear, hatred, hopelessness and injustice. These are the fountainheads of crime. They can be controlled. As imprecise, distorted and prejudiced as our learning is, these sources of crime and their controllability clearly emerge to any who would see.¹

And how would such conditions be changed? In that same volume, Clark explains that it's a "matter of will." If society becomes willing, the conditions that cause crime can be changed, and then crime will be greatly reduced.

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¹New York: Simon and Schuster.

Clark's theory has a plausible sound and anybody who visits a large state prison will find scores of inmates from deprived backgrounds. Some of them are not really criminals in the true sense of the word; they are simply badly adjusted and disturbed people who need to be institutionalized. There are others with personal problems which got them into trouble.

But if a visitor searches out the professional criminals—both in prison and out—he may find that the theory doesn't hold up at all. There are men, and some women, who have numerous advantages in their lives and yet they seem to become criminals by deliberate choice.

For example, neither John Dillinger nor the notorious Alvin Karpis really were deprived as youngsters, nor were they getting revenge on an unjust society. The fact is, the criminal life simply gave them power, excitement, and recognition that they couldn't have found in most straight professions. Far from being driven to crime by necessity and despair, both men had fierce appetites for the danger and rewards of their lawlessness. It is even possible that John Dillinger would have considered his short life well spent, for his crimes brought him a dubious fame that he couldn't have achieved in any other way. Even Karpis, who spent more than 32

years in Federal prisons for his crimes, did not seem to regret his choice of a criminal career. Indeed, his personal story published after his release in 1969 carried few regrets and tended to glorify and defend his criminal career.²

In the introduction to that same book, a quotation from Ben Hecht sheds some light on the nature of the criminal mind. Hecht had been working on a biography of Mickey Cohen, and this portion was later published:

(Wrote Hecht): I have been talking to Mickey Cohen for a number of years and mingling with his underworld entourage. Out of my contacts has come what I think may be a major piece of anthropological lore. The criminal has no hates or fears—except very personal ones. He is possibly the only human left in the world who looks lovingly on society. He does not hanker to fight it, reform it or even rationalize it. He wants only to rob it. He admires it as a hungry man might admire a roast pig with an apple in its mouth.

I was pleased to find this out, for I have read much to the contrary. Society does not, as sociologists and other tony intellectuals maintain, create the criminal. Bad housing, bad companions, bad government, etc., have little to do with why there are killers, robbers and outlaws. The criminal has no relation to society to speak of. He is part of man's soul, not his institutions. He is an old one. A

²Alvin Karpis, *The Alvin Karpis Story* (New York: Coward-McCann & Geoghegan, Inc., 1971).

thousand preachers, summer boy's camps, plus a congress of psychiatrists can barely dent even a minor criminal. As for the major criminal, he cannot be touched at all by society because he operates on a different time level. He is the presocial part of us—the ape that spurned the collar . . .

The criminal at the time of his lawlessness is one of the few happy or contented men to be found among us . . .

Alvin Karpis certainly was that kind of criminal. In his biography, he discussed the few times he had accepted regular employment in the straight world. To Karpis, such a life was boring and pointless, and he quickly abandoned it for the lure of crime. He considered himself a professional thief, and he took considerable pride in his competence and in his standing among other gangsters. If he suffered any remorse for his crimes or saw anything evil in the robberies or kidnappings he carried out, it was not evident in his autobiography. In reading it, one almost has the feeling that Karpis would have selected such a life again if he could have returned to his youth and had choices to make.

Not all criminals have been as open as Karpis about the attractions of a criminal career. In any prison, it is always possible to find convicts who seem to have changed and who have shown appropriate responses to counseling and other supposedly rehabilitative programs. Some of

them, of course, are sincere people who really have changed. Other convicts, however, are usually cynical about the motives of their fellow inmates. Quite often, the "rehabilitated" inmate is really only a perceptive and cunning person who produces the responses that counselors and prison authorities are seeking.

This is not to say that brutal prisons are good institutions for society or that one should abandon hope in possible methods of rehabilitation. We should admit, however, that crime is a lot like cancer. We may know more about it than we did in former days and we may have some criminals who have dramatically changed for the better. Still, both crime and cancer are unsolved problems and nobody has answers that promise wholesale improvements in crime statistics.

Self-Responsibility

One recent development is that some thoughtful people are beginning to question the belief that the criminal is simply the victim of bad social conditions. They are taking another look at the problem and are concluding that the criminal is, after all, responsible for his behavior. This was the conclusion of a psychiatrist, the late Dr. Samuel Yochelson, who with a clinical psychologist named Stanton Samenow studied 252 male hard-

core criminals. They also interviewed people connected with the criminals, including prison and probation officials, families, girl friends, employers, and associates.

Yochelson and Samenow eventually made a basic assumption that flew in the face of popular theory about the roots of crime. This assumption was: *The criminal can and does choose his way of life freely in his quest for power, control and excitement. Moreover, he can choose to change if he musters courage or will to endure the consequences of responsible choices.*³

This assumption was surprisingly close to Ben Hecht's thoughts after spending time with Mickey Cohen and his underworld friends. The criminal, like the rest of us, possesses a human will and is capable of making choices. Every human being is controlled by the fact that choices may lead to unpleasant or unwanted consequences. For many of us, it is often necessary to make hard or difficult choices because we want to avoid certain consequences. For example, many people choose to plod away at boring, unsatisfying jobs simply because they need to make a living and do not want to live in destitution or dependency. Most people, in fact, do not manage to find a great deal of power, control, or excitement.

³See "The Criminal Mind: A Startling New Look," *The Reader's Digest*, May 1978.

It's true that most criminals may not completely understand their own motivations. However, this too is changing. Yochelson and Samenow started a therapeutic program aimed at helping criminals understand themselves and voluntarily change their thought patterns and actions. The program was unapologetically moralistic and was aimed at helping criminals change into responsible citizens. They had promising success with a small group of persons who were willing to change. In the process, they also discovered that a criminal who comes to the program has "to wean himself from the high-voltage jolts he got out of crime to a steady current of satisfaction from self-respect and responsible living." This process may even produce withdrawal pains similar to those experienced by a recovering drug addict!

Helping the Individual To Help Himself

While the work of Yochelson and Samenow is still controversial among professionals in the mental health and psychiatric fields, it is likely to attract other disciples who have become disillusioned with the conventional deterministic theories about criminal behavior. Their findings also are consistent with the results obtained by self-help and religious groups which have worked with criminals. Prison inmates have

been helped by voluntary efforts such as Alcoholics Anonymous and the Dale Carnegie speech training program. The significant element in these programs is that of personal responsibility. The individual is guided to understand himself and to take voluntary steps to change his own thoughts and behavior.

At this point, none of these programs have helped more than a small percentage of the criminal population. Crime is still an unsolved problem, and nobody has found ways of changing the majority of criminals. From time to time, the nation's prisons come under attack for their failure to rehabilitate criminals; some of these institutions also are rightly criticized for their brutality and bestial living conditions. However, there is nothing about the prison system that should logically lead to recovery or rehabilitation of criminals. Prisons are state or Federally-run institutions with bureaucratic managements which are forced to respond to political pressures. The primary purpose of a prison is *custody* and in any conflict between that purpose and rehabilitation, custody always wins.

And until rehabilitation measures can produce a better record of results, custody will continue to be society's principal way of dealing with criminals. Maintaining a prison is expensive and difficult, but there is a grim logic in the concept of

custody. John Dillinger held up no banks while he was in prison at Michigan City, Indiana, and Alvin Karpis neither robbed nor kidnapped anybody after he landed in Alcatraz. There is also a strong feeling in society that violators should be punished. Even Jonathan Kwitny, a knowledgeable and seasoned reporter who writes on crime subjects for *The Wall Street Journal*, has stated that the main problem with criminal justice now is that the system doesn't punish violators—organized or unorganized—after they are convicted.⁴

Punishment as Deterrent

Perhaps another arrangement in favor of strong custodial measures and swift punishments is to deter others who may be weighing the possible advantages of a criminal life. Whether it works this way or not, the public apparently believes that it does and supports the maintenance of prison systems.

But there is no reason why self-help programs cannot be offered even in maximum security prisons. And while no self-help program has produced spectacular results in helping criminals change their lives, some of the *individual* changes have been dramatic. The present author knows several per-

⁴See Jonathan Kwitny, "Ford Foundation Mulls Crime Fight," *The Wall Street Journal*, November 18, 1976.

sons whose lives were completely transformed in prison by accepting certain new ideas about themselves and society. One man made such a complete change that he was later named to *head* a prison camp in another state. Another person who once had been associated with the Detroit underworld become so completely rehabilitated that he was named deputy sheriff of the county where he lived (legally possible for felons if they receive a complete pardon). Still another person had been considered institutionalized; that is, he was believed to be incapable of functioning in society. However, he eventually met all the conditions of a parole and has lived an exemplary life for more than ten years.

Three greatly changed individuals would not be very interesting to the people who compile statistics about crime and criminals. Out of 1,000 men, for example, these persons would be only .3 per cent of the total number. *In their lives, however, the changes were 100 per cent.* They changed completely from persons who had been irresponsible criminals to citizens who could live in peace with themselves and other people in society. How were they able to do it?

All of them reached a point of becoming dissatisfied with their past lives and desired change. Moreover, they realized that the old

ways were wrong and that they had harmed other people. They also accepted full responsibility for their own actions. While they knew that they had been driven by wrong impulses and feelings, they did not place responsibility outside of themselves. Then they accepted new ideas and beliefs which resulted in change. They seemed to become different persons, and in a way they were. They thought differently, they felt differently, and they acted differently.

Probably none of these men had ever heard of Yochelson and Samenow. Yet they proved the Yochelson/Samenow thesis: *The criminal chooses his way of life and can change it if he musters the courage or will to do so.*

No Miracles Promised

It would be misleading and thoughtless to say that *every* criminal can be changed by the sparse self-help programs now available in state and Federal prisons. After all, few people in free society make dramatic behavioral changes, so why should criminals be any different from the normal population? Crime is an unsolved problem, but it is not the only unsolved problem.

It also is wrong to say that individuals can be expected to change their lives without help or assistance from others. Actually, all of us are part of society and we owe many

of our best ideas and beliefs to others who have helped us, patiently instructed us, and guided us. There is no such thing as a good society without a great deal of human cooperation and voluntary problem-solving.

But this is not the same as saying that society is responsible for our condition or that the proper way to change people is to impose, by coercive means, a certain form of organization on society. The fact is, it works the other way around. People think and act in certain ways, and society becomes a mirror of their beliefs and actions. Criminals are sometimes called the victims of an unjust society. But criminals, like the rest of us, help make society what it is. In fact, the criminal helps destroy the very society that is blamed for his ills.

In dealing with crime and criminals, we still have no answers that promise broad, sweeping changes. We should, however, be very skeptical of any proposals for fighting crime that do not take into account the *individual will* and *motivations* of each person who is or might become a criminal. James Q. Wilson, a Harvard professor who has served on crime and drug commissions, makes an important statement about the general problem of crime in closing his book, *Thinking About Crime*:

... some persons will shun crime even if we do nothing to deter them, while

others will seek it out even if we do everything to reform them. Wicked people exist. Nothing avails except to set them apart from innocent people. And many people, neither wicked nor innocent, but watchful, dissembling, and calculating of their opportunities, ponder our reaction to wickedness as a cue to what they might profitably do. We have trifled with the wicked, made sport of the innocent, and encouraged the calculators. Justice suffers, and so do we all.⁵

The professor seems to be saying that we should be very humble about our knowledge of crime and its causes. He does say that we still should make distinctions between innocence and wickedness. There are criminals whose actions need to be taken seriously, and who should be locked up in order to protect the innocent. The innocent person should not have to take the rap for the criminal's actions.

One of the crucial questions in thinking about crime is whether or not the criminal is capable of making conscious choices that govern his actions. If he is incapable of making such choices, he should be adjudged insane and dealt with accordingly. If he is capable of choosing right or wrong behavior, then he also can choose a new way of life. Few criminals do make such choices. Perhaps that's why crime still is the great unsolved problem. ☯

⁵James Q. Wilson (New York: Basic Books, 1975), p. 209.

Faith Integrity and Shame

WHATEVER happened to shame? We have lived long enough to see people from all sectors of the population line up at the government trough to beg for tax dollars from the hands of self-serving politicians at all levels of "public service." And they do it without shame! If you are not getting yours from some governmental bureau or agency, there are other agencies established to help you find a law or clause or loophole to open the cornucopia of limitless "bread" looted from the hapless taxpayers and funnel it right into your pocket.

In the little town where I live in rural America one of the forward-looking citizens came up with the idea of sprucing up Main Street, through which a lot of

tourists pass during a year. Businesses were called upon to voluntarily fix up the fronts of their buildings with needed repairs and paint, soap and water. The idea caught on and people began to sign up as participants. But, not more than two weeks passed when one of the socialist-minded localities discovered a federal bureau that is programmed to dispense funds for just such enterprises. Now several of the businessmen have decided to wait until the paper work for the anticipated largess has been cleared. This is only one example of many pipelines for tax dollars into our community, and it is typical of hundreds of thousands of raids on the treasury—without shame!

About 2500 years ago there lived a man named Ezra. Like a misplaced Vietnamese, he was an exile

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from his homeland, and he organized a pilgrimage of his people to return to the land from which they had been led away captive. Being a man of faith he said, "I proclaimed a fast, so that we humble ourselves before our God and ask him for a safe journey for us and our children, with all our possessions." If Ezra had been our contemporary instead of occupying such a remote slot in history he would have found bureaucrats standing in line with financial aid, trucks, buses, ships, planes or whatever he might think he needed. In those days, as you can well imagine, the state patrol was not cruising the freeway at the beck and call of distressed pilgrims. They had to traverse hostile country to arrive at Jerusalem, their destination. There was some safety in numbers, of course, but without an organized army they were in jeopardy, especially in view of the large quantities of gold and silver they were transporting.

Temptation Resisted

Ezra resisted what must have been a strong temptation to ask for a detachment of military support and protection. "I was ashamed to ask the king for soldiers and horsemen to protect us from enemies on the road, because we had told the king, 'The good hand of our God is on everyone who looks to him, but his anger is against all who forsake

him.' So we petitioned our God about this and he answered our prayer" (Ezra 8:21-23).

All the peoples of that day were religious; most of them, including the Babylonians, the Medes and the Persians, worshiped idols. Even Artaxerxes, king of Persia, bowed to man-made gods and consulted astrologers in order to communicate with the metaphysical realm. But Ezra and his people worshiped a God who could not be seen with the physical eye, and for this reason they were at times called atheists by the idol worshippers.

Ezra claimed his God was the only real one and that all the rest were phony, and now he was going to get a chance to "put your money where your mouth is." It was, then, with some fear and trembling that he led his people back to the land from which they had been exiled for 70 years. Having bragged about the faithfulness and power of Jehovah, he was ashamed to ask help from a heathen king, the most powerful in the world at that time.

Obviously, Ezra was a man of faith and integrity. He trusted God and prayed to him because he believed in him. The testimony of his forefathers and the prophets had impressed him so deeply that he was still a believer, even though he and his people were exiled captives in the hands of a heathen king. Furthermore, he was honest enough

to admit that he couldn't have it both ways. Either he would walk by faith all the way, or he would admit his God was not worthy of trust.

Ezra, come on back; we need you. Most of the "Christians" of our day pay lip service to God, but they petition the Government for just about every material thing. And they do it without shame. They ask for commodity foods, food stamps, tax breaks for churches and other non-profit organizations. They go to government agencies for welfare, medicare, pensions, and so on. We have arrived at the point in time where the people of this nation whose coins bear the inscription, "In God we Trust," have turned their backs on God and their faces to Government. The Government even publishes a virtual library of books detailing how every citizen may petition Big G for help of all kinds. Big G will tell you how to raise bees, make charcoal, buy a car, insulate your house (and pay you to do it!), save gas, raise a garden and can its produce, on and on. You may even subscribe to publications that tell you how to get more money out of your Government.

Government or God?

We as a people have petitioned our Government so long (nearly 50 years) it is really mockery to talk about our "faith in God." As Government has grown in power

and has come to dominate every facet of our lives, God has diminished in the hearts and minds of each of us. We can't serve God and Government in the same way at the same time.

The sense of shame Ezra felt at the mere thought of petitioning the government of his time is what we need in Americans today, but shame is almost totally non-existent among us. In fact, the converse is true; millions of our people tend to think first of the Government whenever any need arises. "There must be some agency to dispense the funds we need for this project!" What are you planning to do? Build a bridge? Educate your child? Insulate your house? Pave your streets? Kill your mosquitoes? Vaccinate your hogs? The Government can do it for you! PTL (praise the Leader).

The conviction is growing in my heart that until Americans lose faith in "Almighty Government" and turn back to Almighty God, there is no hope for the survival of this republic. Faith in Government as the all-powerful one to whom all should pray is rank humanism, and the epitome of it is found in Soviet Russia, the "Peoples" Republic of China, and all the "peoples republics" of the world. Their "hearts belong to Daddy," "Big Daddy Government," and their minds are being conditioned to send all petitions in that direction. They become slaves,

mind and body. They are schooled in scarcity and can only dream for fleeting moments of the abundant life that Jesus came to give us. As we turn all our responsibilities over to Government we develop a scarcity of everything but bureaucrats, who sit around like vultures grabbing whatever else we are allowed to produce. The next step, of course, is rationing.

Why are we in this sorry mess? Someone has rightly said we get the kind of government we deserve. Unless we can have a resurgence of men like Ezra, there will be no change for the better. We need a restoration of faith and integrity. We need to re-educate the conscience of the American people to the place where they can again experience shame instead of blatantly asking Government to rip off their neighbors on their behalf at the

point of a gun. Queuing up at the Government pipeline is legalized stealing, regardless of the euphemistic title given it by the G-men. Federal aid is a transfusion from one arm to the other—through a leaky tube. Those who ask for it because it is legal are still immoral, and it should be stressed that legality and morality are not synonymous.

Because of Ezra's faith and integrity he became involved in a tremendous reconstruction project. If it's not too late, we too can become involved in the restoration of a glorious republic composed of responsible, free men and women who will be ashamed to petition the Government for any kind of financial help. But it takes faith and integrity now as much as it did 2500 years ago. 

Faith and Freedom

BEFORE we attempt to lead other nations toward peace, we first must reaffirm our own faith in the moral and spiritual principles of Christianity, so that we shall be strong enough to resist the invasion of Communism and other alien influences. Individually and nationally, we must cleanse our minds of all dishonest thinking. We must strive constantly for honesty in government, in politics, in business, and in our private lives. We must rededicate ourselves to the service of God, and be ready at all times to give a reason for the faith that is in us.

IDEAS ON



LIBERTY

J. HOWARD FEW, from
Faith and Freedom, a biography
compiled by Mary Sennholz

An Ideology for Unions

Dr. Carson has written and taught extensively, specializing in American intellectual history. His recent series, *World in the Grip of an Idea*, is now available as a book (as advertised on page 119 of this issue).

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The supply of labor was not the only obstacle to unionization, however. Indeed, it was the main reason for being of unions, and only an obstacle when they were unable to deny employment to the unorganized. The fundamental obstacles to unionization lay deeper than that in nineteenth century America. Unions had no socially or legally acceptable object for their main activities.

The Legality of Combinations

Let us consider the narrow legal question first, since it can be dealt with most readily. That men may associate together for voluntarily entered into lawful purposes was not seriously challenged in the history of the United States. (I except slaves and slavery from the issue, for that confuses rather than clarifies the matter.) What was questioned was that men might combine so as to set conditions of employment and exclude others from employment. Such combinations were frequently held to be conspiracies in the early years of the Republic, and therefore unlawful. In *Commonwealth v. Pullis*, for example, the Philadelphia Cordwainers, a union of shoemakers, were brought to trial in 1806. "The indictment included charges that association members conspired to raise wages, refused to work for an employer who paid less than a fixed rate, and prevented

workers who were not members of the association from being hired."² The members of the union were found guilty and fined.

In *The People v. Fisher* a New York court isolated and addressed the specific issue of whether or not it was lawful to combine in order to exclude non-members of the union from employment. The decision was rendered in 1835. The court substructured its argument with the common law rulings and legislative position on combinations in restraint of trade. It then proceeded to the issue:

... The man who owns an article of trade or commerce is not obliged to sell it for any particular price, nor is the mechanic obliged to labor for any particular price. He may say that he will not make coarse boots for less than one dollar per pair, but *he has no right to say that no other mechanic shall make them for less*. The cloth merchant may say that he will not sell his goods for less than so much per yard, but has no right to say that any other merchant shall not sell for a less price. If one individual does not possess such a right over the conduct of another, no number of individuals can possess such a right. All combinations therefore to effect such an object are injurious, not only to the individual particularly oppressed, but to the public at large. . . .³

The above ruling was based most specifically on an act of the legislature of New York. Thus, it declared the act of combination was itself

illegal when the object was to exclude non-members from employment. The common law was not usually interpreted as being quite so restrictive. Thus, Chief Justice Shaw gave it as his opinion in 1842 in *Commonwealth (of Massachusetts) v. Hunt* that combinations as such were not illegal. This has been hailed as a landmark decision by many historians. It was not a landmark in the sense that it acknowledged the right of men to associate to take legal action. That had been granted all along. The prosecuting attorney in *Commonwealth v. Pullis* had granted this right readily. He said: "The defendants formed a society the object of which was . . . What? That they should not be obliged to work for wages which they did not think a reasonable compensation? No: If that was the sole object of the society, I approve it. . . . No man is to work without a reasonable compensation; they may legally and properly associate for that purpose. . . ." ⁴ It was, as he went on to point out, their use of compulsion to which he objected and about which the suit was being prosecuted.

Means and Ends

The opinion given by Chief Justice Shaw in support of the decision in *Commonwealth v. Hunt* did muddy the waters. He held that an association might be legal even though it may adopt "measures that

may have a tendency to impoverish another, that is, to diminish his gains and profits, and yet so far from being criminal or unlawful, the object may be highly meritorious and public spirited." ⁵ It all depended, he said, on the means employed to accomplish the object. For any courts inclined to follow in the steps of his opinion, he did open the way to consideration of the object of a labor union. More, he opened the way for ignoring the harm that might be done to non-members—such as loss of job, unemployment, the closing of businesses—if the end being sought was a worthy one. However, courts were decades away from generally accepting as evidence all the sociological data that such considerations entailed.

More important, the main thrust of American society for most of the nineteenth century was profoundly individualist. Unionism requires a collectivist framework within which to work. The thrust of the American Revolution was in the direction of removing special privileges and legal supports from groups and organizations. The disestablishment of churches is an important case in point. Most of the colonies had an established church, or accorded special privileges to those of particular denominations. In most of the new states both privileges and restrictions were struck away in the 1780s. The First Amendment to the Con-

stitution prohibits Congress to establish a religion.

The abolition of any government-imposed entailment and primogeniture tended to make property fully individually owned and at the disposition of its owner. Aristocratic titles were proscribed, and the movement was away from legally supported classes. Most northern states abolished slavery; it was prohibited in the Northwest territory; and provision was made for the eventual ending of the slave trade.

Individual Rights

Although the principle was incompletely realized, one emerged nonetheless. It could be stated this way: No non-governmental organization should have any legal standing other than such as belonged to the members comprising it. In *The People v. Fisher* the court had articulated the principle in this fashion: "If one individual does not possess such a right over the conduct of another, no number of individuals can possess such a right." In short, organizations possessed no rights beyond those of individuals. The opposition to the Order of the Cincinnati—a society of veterans of the Revolutionary War—was based on the fear of special rights coming to be attached to its members. Freemasonry was sometimes attacked for similar reasons.

In the realm of economic organi-

zations there were countercurrents at work at the time of the founding of the United States. Mercantilism still had its followers, as it has from time to time throughout American history. It was a common mercantilist practice for government to grant charters to particular businesses which gave them monopolistic privileges. It was commonplace in early American history, for example, for a company to be given a charter to build a bridge or road and to collect tolls from users. The United States Bank was the most famous national instance of such a chartered monopoly. This Bank was financed both with government and private funds, a fairly common practice at the time also.

The other current was the movement to divest organizations of all special privileges and to deny them any special favors. This movement reached its peak during the Jackson Era—the 1830s and 1840s. Much of the ire of this opposition was focused on banking, but by no means all of it. The United States Bank was the national victim of the opposition to privileged organizations, but in some states the opposition extended to all banks. In 1819, the governor of Kentucky proposed to the legislature that it initiate an amendment to the United States Constitution to the effect that "no incorporated bank should exist in the United States."⁶

When a constitution for Iowa was drawn in 1846, it prohibited the most salient feature of banking at the time—the issuance of paper money—in these words: “No corporate body shall hereafter be created, renewed, or extended with the privilege of making, issuing, or putting in circulation any bill, check, ticket, certificate, promissory note, or other paper, or the paper of any bank, to circulate as money. . . .”⁷ The author of the article from which these quotations are taken points out that had these people understood the effects of deposit banking they would have been equally opposed to it.⁸

Opposition to Corporations

The opposition to giving legal standing to organizations never quite reached through to all commercial and charitable undertakings. (In any case, the opposition was more western than national.) Perhaps it was deflected from that course by the furor over special privileges and chartered monopolies. From the beginning, state legislatures had granted charters and passed special acts of incorporation for particular businesses or institutions. These special acts not only smacked of special privilege but also were susceptible to corrupt relations between those seeking them and members of the legislature.

Instead of abandoning the corporate form, many legislatures passed general acts of incorporation. “Led by Connecticut in 1837, Maryland, New Jersey, New York, Pennsylvania, Indiana, Massachusetts, and Virginia all passed some type of general incorporation statute before the Civil War. In all cases, the laws sought to bring about uniformity and to protect the public from special privileges in the establishment of corporations.”⁹ General acts of incorporation did not end opposition to corporations, of course; that has been a fairly constant refrain in American history, and has risen to a crescendo from time to time.

My main point, however is that an individualistic ethos prevailed in America in the nineteenth century. Not even political parties had legal standing; they were private associations. Rights were something belonging to individuals. Slavery was an anachronism, and as some of the most astute men saw, it had to go. Clubs, groups, and various sorts of organizations abounded; church denominations proliferated, and some prospered. But they subsisted by individual choice, and survived and prospered only so long as individuals gave freely of their time and substance to them. Work and trade relations were a matter of contracts between or among adult individuals (slavery excepted, as always). In general, neither government nor so-

ciety recognized any class, grouping, order, or organization of men with special privileges and positions.

There was hardly a place for labor unions within this ethos. True, they might exist as private societies so long as they engaged in no destructive acts. Conceivably, they might have applied for corporate status, but that was not a very live option. In the first place, even limited liability incorporation would impose liabilities on unions which they have usually sought to avoid. In the second place, incorporation imposed limits on activities and required the spelling out of the purpose of the organization. It is most unlikely that a corporate charter would have been issued in the nineteenth century to a union which stated in blunt legal language its purpose and the means by which it was to be achieved.

Secret Societies

It is not surprising, then, that most early American labor unions were secret societies. They sometimes adopted names redolent of secret societies, such as the Knights of St. Crispin or the Knights of Labor. Their membership rolls and rites were secret; their efforts at organization were often surreptitious. The Knights of Labor, the first national union of consequence, resembled in form the Knights of the Ku Klux Klan, though its purpose and

methods were different. The head of the Knights of Labor was styled "Grand-master."

Labor unions had a large and apparently intractable problem to solve before they could come out into the open, become respectable, and gain some sort of recognized legal status. There was a gaping hole in their argument. Their basic appeal for members was that they could gain something of value for them—higher wages, shorter hours, better working conditions, or what have you. Yet most of these improvements could only be obtained by labor unions by reducing the supply of workers available to employers at crucial times. This means that unions are organizations of some workers primarily against other workers. It means that their basic acts will be against other workers, as in strikes, boycotts, and just about any tactics that may be devised. The usual impact on unorganized workers is indirect, of course; it is experienced as unemployment, underemployment, and lower returns.

For labor unions to succeed either in gaining a large following or establishing themselves on anything like a permanent basis required a favorable framework. A considerable portion of that framework was provided by ideology, ideology which shifted the emphasis from the individual to the collective, ideology

which papered over or concealed the primary thrust of unionism, and ideology which provided a justification for the conflict which unionists claimed was involved, i.e., between management and labor.

Unionism Rests on Socialist Vision of Injustice

The ideology which undergirds unionism is socialism. Lest this statement be misunderstood, some qualifications are in order at the outset. In the first place, socialism was not originated as a doctrine to support the founding of labor unions. In the second place, many of those who support labor unions have not been consciously, avowedly, or by their own understanding of the matter, socialists. The ideological justification of unions is an offshoot of socialism, not its primary impetus. Socialism is a vision of the good society; unions are conceived as a partial corrective in an unjust society. It is that socialist vision of injustice which informs unionism, not necessarily its ultimate goal. It is in this sense mainly that socialism undergirds unionism.

There are three doctrines which were variously formulated by socialists which undergird unionism. They are: (1) *that the wage system in a capitalistic economy is unjust*; (2) *class consciousness*; and (3) *the class struggle*. These doctrines serve both to justify

the union activity and to conceal much of its essential character.

Here is a statement of the first doctrine, one from among many that could be adduced. It is general enough, as many of them are, to include a variety of explanations of the injustice that is supposed to be involved:

It is hardly disputed that capital, under our modern industrial system, is receiving more than a just share of the fruits of labor, and the laborer is receiving relatively less and less of the profits of his toil. The increase of wealth and wages is in no sense equitable. There is not a progressive economist in America or England who does not say that wealth is growing out of all proportion to the benefits which the laborer derives from his labor. The distribution of wealth is not according to industry or ability; not according to one's worth to society, but according, in large measure to the skill of some in appropriating to themselves the fruits of the labor of others by commercial legerdemain. . . .¹⁰

In general, socialists ascribe this inequity to the private ownership of property, or, more precisely, to the private ownership of the means of producing and distributing goods. This ownership—a system in which some have much, and most have little or none—is supposed to enable the owners to claim much more than their rightful share of the product of labor.

Indeed, according to Karl Marx's famous formulation of the labor

theory of value, the owners of productive property would be entitled only to the return from what they had produced with their own labor. As Marx put it, "*The relative values of commodities are, therefore, determined by the respective quantities or amounts of labour, worked up, realised, fixed in them.*"¹¹ That being the case, anything taken by owners or managers for themselves was taken from what rightfully belonged to the workers. This taking away of the product of his labor led to the alienation of the worker and a whole train of unfavorable consequences, according to Marx:

The alienation of the worker in his object is expressed as follows in the laws of political economy: the more the worker produces the less he has to consume; the more value he creates the more worthless he becomes. . . .¹²

Most American union leaders have not been Marxists, but that they based their efforts on the injustice of the system should be clear from the following statement. It was worked out in 1894 in a conference of labor leaders, including Samuel Gompers of the American Federation of Labor, in Chicago in 1894:

The trade union movement has its origin in economic and social injustice. . . . It stands as the protector of those who see the wrongs and injustice resultant of our present industrial system, and who by organization manifest their purpose of becoming larger sharers in the product

of their labor, and who by their efforts contribute toward securing the unity and solidarity of labor's forces; so that in the ever-present contest of the wealth producers to conquer their rights from the wealth absorbers, we may . . . work out through evolutionary methods the final emancipation of labor.¹³

This statement not only affirms the labor leaders' belief in the injustice of the system but also the other two doctrines of the ideology. The second doctrine is class consciousness. It is stated above as "the unity and solidarity of labor's forces." By "class consciousness," I mean to convey the conception that all workers—all the "toilers of the world," as it was sometimes stated—are members of a single class. The notion is that they share a common interest and a common goal. As the ideal was often stated, "an injury to one [is] an injury to all."¹⁴

Class Consciousness

The doctrine of class consciousness is absolutely essential to the labor union effort. In reality, workers are in competition with one another for jobs, just as employers are in competition with one another for workers. In actuality, the primary contest of unions is with unorganized workers or with workers in other unions. This obtrusive fact must somehow be countered or put out of mind and sight. Class consciousness is the de-

vice for doing it. If all workers have an identity of interest, if they think of it that way and believe it (or if the general population does), they must support all justified union efforts. Class consciousness is the bond of union collectivism.

This does not alter the fact that many workers do not belong to unions. More important, it does not change the actuality that when some workers walk out, others may remain on the job, or when there is a strike, other workers are sometimes willing to take their place, or when there is a boycott, some workers may ignore it. It does, however, provide a framework for placing those who ignore the union will beyond the pale. Such workers are fundamentally "defective." They lack the sense of class consciousness. They are not, however, objects of pity but of scorn, fit to be treated in whatever way it is necessary in order to be rid of them.

Union terminology recognizes three categories for those who work in defiance of the union decision. There are, first of all, "scabs," the non-union workers who work when the union has proclaimed a work stoppage. Then, there are the "rats," an even more contemptible category, those workers who were formerly union members but have left the union to act on their own. Then, there is a kind of universal category, that of "strikebreakers."

In union mythology, "strikebreakers" are toughs and thugs brought in by employers to work during a strike in order to break it. They are semi-professionals at being tough enough to endure the abuse they will receive when they go through picket lines and unafraid of the threats of retaliation. Although there have no doubt been instances when such people have been brought in by employers, just as unions sometimes bring in toughs to fortify mass picketing lines, any who work during a strike are likely to be castigated as "strikebreakers," as well as by the other unsavory terms.

The important point here, however, is that the doctrine of class consciousness enables unionists to place workers who act contrary to their aims beyond the pale. Thus, any conflict with them is not viewed as a contest between workers but as a contest between noble and righteous workers, on the one hand, and traitors to the cause on the other.

A Class Struggle

The linchpin of unionist ideology is the doctrine of the class struggle. It gives coherence and direction to the whole union effort. It is a doctrine derived from socialism, though it existed in embryo fashion in pre-socialist formulations. It was stated in the 1894 unionist formulation as "the ever-present contest of the wealth producers to conquer their

rights from the wealth absorbers. . . ." Most late nineteenth century socialists described it as a struggle between capital and labor. In twentieth century America it has been somewhat softened by referring to it as a contest between labor and management. (Note, labor unions usually describe the contest in such a way as to claim that they embrace all of "labor." The doctrine of class consciousness fortifies this notion.)

In the preamble to their constitution in 1908, the I.W.W., a revolutionary American union, described the class struggle this way:

The working class and the employing class have nothing in common. . . .

*Between these two classes a struggle must go on until the workers of the world organize as a class, take possession of the earth and the machinery of production and abolish the wage system.*¹⁵

Most American unionists do not, of course, subscribe to the revolutionary goals professed above. But the class struggle doctrine is essential to their ideology. It defines who the struggle is with. It is against the employers. They are the antagonists. They are the source of whatever injustices are alleged, and they are the ones who have it in their power to alter the situation. It is not supposed to be a struggle to the death. It is not even a continuous struggle. Instead, it is an episodic struggle, one which may go on until union recognition has been

achieved and a pact arrived at between the two parties. Then, it is in abeyance, so to speak, until new grievances arise or until a new contract is due.

In a broader sense, though, it is a continuing struggle. It is the struggle to organize all workers in a trade or industry and to get recognition for these unions. Even more broadly, there is the tacit, and sometimes explicit, goal of organizing all employed workers. Interestingly, established labor unions never make an extended effort to organize the unemployed. (Coxey's Army, an assortment of the unemployed during the depression going on in 1894, did receive some contributions from labor unions, but it was not a labor union and was brought into being to bring pressure on the national government.¹⁶) There is sufficient reason for them not to do so. For what purpose would the unemployed be organized? To get the jobs of some of those employed. But such an undertaking would blow the cover of the unions, so to speak.

Attention Diverted

That brings us to the essentiality of the class struggle doctrine to unionism. It serves to focus attention away from the primary contest between workers and upon what is, at best, a secondary contest between unions and employers. A widespread acceptance of the class struggle view

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by Clarence B. Carson

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of the matter tends to focus public attention on conditions of employment and the grievances alleged by the unions.

When a strike occurs, reporters do not ordinarily make surveys of the available supply of labor. They do not report the living conditions of those who were not employed. They

do not describe it as a basic conflict between employed and the unemployed, or those employed for less return. Instead, they report the alleged grievances of unions against employers and focus attention on the conduct of the employer. Presidential commissions and legislative committees do not call in the un-

employed from the surrounding countryside for interrogation. Instead, they grill the striking workers and the employers.

The class struggle doctrine makes all this quite plausible. It is only when the matter is examined economically, or when concern is shown for the victims of the violence, if there is any, that the matter takes on a different cast. Then it becomes clear that unions can only achieve their aims by excluding competing workers from employers, that organized workers are primarily organized against other workers. The class struggle thesis acts to conceal this character of the conflict.

In the course of the nineteenth century, labor unionists came under the sway of an ideology. It was so much of socialist ideology, at the least, as was necessary to buttress their undertaking. They accepted the view that individual workers acting alone would be cheated of their rightful share of the fruits of their labor—that the system was unjust. They accepted the necessity for collective action by workers and, in justification of that, that workers belonged to a class. They accepted the class struggle thesis, that theirs was a contest between capital and labor. They attempted, of course, to persuade people generally that their ideological version was the correct view of the matter.

Having an ideology did not insure

that labor unions would succeed in establishing themselves. It did provide a framework within which to operate. ☉

—FOOTNOTES—

¹See, for example, Gilbert C. Fite and Jim E. Reese, *An Economic History of the United States* (Boston: Houghton Mifflin, 1965, 2nd ed.), pp. 227-30, 398.

²Raymond S. Iman and Thomas W. Koch, *Labor in American Society* (Glenview, Illinois: Scott, Foresman and Co., 1966), pp. 23-24.

³Henry S. Commager, *Documents of American History*, vol. I (New York: Appleton-Century-Crofts, 1962, 7th ed.), p. 296.

⁴Iman and Koch, *op. cit.*, p. 25.

⁵Commager, *op. cit.*, p. 298.

⁶Quoted in Bray Hammond, "Banking in the Early West: Monopoly, Prohibition, and Laissez Faire," in Thomas C. Cochran and Thomas B. Brewer, *The Agricultural Era* (New York: McGraw-Hill, 1966), p. 173.

⁷*Ibid.*, p. 177.

⁸*Ibid.*, p. 183.

⁹Thomas C. Cochran, *Business in American Life* (New York: McGraw-Hill, 1972), p. 78.

¹⁰George D. Herron, "Christ and the Social Revolution," in *American Issues*, edited by Merle Curti, Willard Thorp, and Carlos Baker (Philadelphia: J. B. Lippincott, 1960), p. 705.

¹¹Karl Marx and Friedrich Engels, *Selected Works* (New York: International Publishers, 1968), p. 204.

¹²Z. A. Jordan, ed., *Karl Marx: Economy, Class and Society* (New York: Scribner's, 1971), pp. 126-27.

¹³Thomas G. Manning, ed., *The Chicago Strike of 1894* (New York: Henry Holt, 1960), p. 34.

¹⁴Iman and Koch, *op. cit.*, p. 88.

¹⁵*Ibid.*

¹⁶See Donald L. McMurry, "The Industrial Armies and the Commonwealth," *Mississippi Valley Historical Review*, vol. 10, pp. 215-52.

An American Renaissance

LONG AGO Albert Jay Nock made a key distinction between political power and social power. When one waxes, the other wanes. In the great periods in history social power has been dominant, with wars localized and infrequent. Nineteenth-century America is an important case in point: here, on an open continent, inventiveness went hand in hand with low taxation, industry thrived, and great universities were founded on the basis of voluntary giving.

Nock was not a person to quantify his concepts; he relied on common sense observation to make his points. But common sense is not enough, particularly in a world in which there is so little of it. We have needed economists to demonstrate in cold arithmetical terms just how the seizure of the usufructs of social power by the political arm can diminish all our lives.

Recently Jude Wanniski, in *The Way the World Works*, has popularized and expanded upon the thinking of some of the new pro-social power anti-Keynesian economists, notably Arthur Laffer of the University of Southern California, and Robert Mundell of Columbia University. Between them, Laffer and Mundell have proved the case for the Nockian insight that taxation, when pushed to progressively high levels and combined with inflation, can asphyxiate an economy. But how do you get this across to politicians who thrive on the transfer of resources to the State?

Luckily, there are some politicians who care more for their productive-minded constituents than they do for themselves. One of them is Jack Kemp, the Congressman from Buffalo, who was once a most effective professional football

quarterback. An observant man, trained to read an enemy's defenses, Jack got into politics without much knowledge of economics. But he was, as he says in his *An American Renaissance: A Strategy for the 1980s* (Harper and Row, 207 pp., \$8.95), an expert in incentive. In football, he says, "your success is easily measurable. You have three seconds to get the ball, get back, and choose a receiver from four or five different possibilities. It's incentive. It's price theories, a reward-risk ratio."

This is a little fanciful, but the subject of reward-risk ratios led Kemp into the deeper waters of price theory. "Clearly, work and saving," he told an interviewer in 1978, "are more important than just consumption and leisure, and a society that rewards consumption and leisure more than it rewards saving and work is a society, black or white, rich or poor, Third World or developed world, that is on the decline."

The Incentive to Produce

At first Kemp had difficulty seeing the whole problem. He thought that the only way to increase the nation's productivity was to lower business taxes as an inducement to greater profits and production. Taxes on labor seemed to be in a different category, for workers were consumers, and, theoretically, if they kept more of their income they

would be using it to bid up prices. But Jude Wanniski, then of the *Wall Street Journal*, pointed out to Jack Kemp that he was still thinking in Keynesian terms. He had not stopped to consider that labor, if it could keep more of its wages after taxes, would also have more incentive to produce.

Once Jack Kemp had grasped the idea that both capital and labor had the same interest in tax reduction, he was ready for Professor Laffer's theory of the "wedge." Taxes on capital, taxes on labor, inflation, bureaucratic regulation, minimum wage laws, are all slices of the wedge that stands between maximizing individual effort and reward. True enough, some taxes are inevitable as long as people prefer limited government to anarchy. But it seemed obvious to Laffer—and to Kemp, as a reader of Laffer—that reduction of the wedge should be a prime concern of the statesman interested in productivity.

Productivity, of course, is the source of taxes. It follows that there can be two tax rates along a productivity curve that will produce the same revenue. A high tax rate on low volume won't generate any more government income than a low rate on high volume. The duty of the statesman is to find the point on the "Laffer curve" that will produce enough revenue to run the govern-

ment without cutting into the individual's marginal incentive to produce that last widget, or pair of shoes, or whatever.

Kemp, in his book, has digested Laffer's thinking. His response, as a Congressman, has been to introduce the so-called Kemp-Roth bill calling for a thirty per cent reduction in taxes over the period of a few years. Kemp is fond of quoting Jack Kennedy's phrase, "a rising tide lifts all boats." Kennedy, though surrounded by Keynesians, had hit upon the Laffer solution before Laffer had ever been heard of. The trouble with the Kennedy tax reduction is that it couldn't get the country moving fast enough to sustain both the Vietnam War and the Lyndon Johnson Great Society. There is a necessary limit to the miracles that a low-tax-rate-high-volume theory can work, as Jack Kemp himself realizes. Budget balancing can't be put off forever, or the inflation will get us all.

A Question of Priorities

But what should come first, budget balancing or tax reduction? Kemp has his own theory of priorities here. Americans, he says, "have two complementary desires. They want an open, promising ladder of opportunity. And they want a safety net of social services to catch and comfort those less fortunate than themselves and those unable to

share in the productive processes when the economy goes sour."

Kemp's advice is to begin cutting taxes across the board now and worry about money for the "safety net" later. "A vibrant economy," he says, "can afford to leave the safety net in place and at the same time ensure that the net is as empty as possible." With "real economic expansion" resulting from tax reduction, people would be bouncing out of the safety net into productive jobs. We wouldn't need all those appropriations for the Department of Health and Welfare, or for urban renewal, or for unemployment insurance or whatever.

There would be a short-term problem in accepting Jack Kemp's priorities if his fellow politicians happened to be laggard in getting away from old institutional habits. With people bouncing out of the social service "safety net" to take productive jobs, the need for a huge net-tending bureaucracy in Washington, D.C., would be diminished. But would the bureaucrats be inclined to depart in peace? And would Congress have the fortitude to fire net-tenders who had long-term records of party reliability?

These are questions that Jack Kemp thinks can be settled as transfer payments to individuals become less of a government problem. With less work to do, bureaucracies can wither. Or so we must hope.

Some two thirds of Kemp's book are devoted to the problems of incentives in society. The remainder goes into energy matters and into foreign and military policy in an extremely intelligent way. There is a great chapter on "exporting the American idea." The book is much more than a campaign document; it is a prod to high and serious thinking about problems that will be with us well into the twenty-first century. ☉

THE MADISONS: A BIOGRAPHY

by Virginia Moore

(McGraw-Hill, 1221 Ave. of
the Americas, New York, N.Y. 10020)
1979

568 pages ■ \$15.00 cloth

THE GREAT RIGHTS OF MANKIND: A HISTORY OF THE AMERICAN BILL OF RIGHTS

by Bernard Schwartz

(Oxford University Press, 200
Madison Ave., New York, N.Y. 10016)
1977

279 pages ■ \$11.95 cloth

Reviewed by Haven Bradford Gow

JAMES MADISON firmly believed that human beings possessed certain rights; inalienable, ungrantable rights that emanate not from the generosity of society or the government but, rather, from the hand of God. The duty of government, then,

is to preserve and protect these God-given rights.

Madison had a trenchantly realistic view of human nature. If men were angels, he said, government would not be necessary. But human nature is a mixture of good and evil. The faculties belonging to man's higher nature—conscience, sense of justice, capacity to love, the ability to subordinate his private, selfish interests to the common good, and the inherent capacity to make free choices and judgments—are traits which make self-government possible; but characteristics of man's lower nature such as envy, hatred, greed, selfishness and violence require a government of law to curb those who offend against the rights of others. And to further safeguard the individual Madison advocated the addition of a Bill of Rights to the Constitution to provide legal safeguards against both a "tyrannous majority" and abuses of government power.

When the first Congress convened in Old City Hall on Wall Street in New York, in April, 1789, Madison was at his peak, physically and intellectually, a slender, short-statured and soft-spoken man of thirty-eight, but a giant, morally and intellectually.

President George Washington, in his first message to Congress, had mentioned the widespread popular demand for amendments to the Con-

stitution, but had declined to make "particular recommendations on the subject," leaving that responsibility to Congress. In an Address to the President drafted by Madison, the House responded that the question of amendments "will receive the attention demanded by its importance."

The story is well told in the second book under review, written by New York University Professor of Law, Bernard Schwartz.

Madison addressed the first Congress on the 8th of June, 1789, to explain his nine amendments. He defended the bill as a much-needed check on a potentially tyrannous majority, and concluded that a bill of rights would have "a salutary effect against the abuse of power," because "independent tribunals of justice will consider themselves in a peculiar manner the guardians of those rights." Madison emphasized his fifth amendment, which forbade the states to violate the rights of conscience, freedom of the press, or jury trial, because, as he put it, "It is proper that every Government should be disarmed of powers which trench upon those particular rights."

Significantly, as Professor Schwartz points out, the Madison amendments cover all the articles that eventually became the Federal Bill of Rights. Four of Madison's amendments, though, were elimi-

nated during the congressional debates: the first, containing the general declaration of the theory of popular government; the fifth, prohibiting state violations of freedom of conscience, freedom of the press and trial by jury; the sixth, which limited appeals; and the eighth, which dealt with the separation of powers. Two of Madison's amendments failed to achieve ratification: the second and third, concerning congressional size and compensation. The other Madison amendments, though, survived substantially as the Bill of Rights itself: a very remarkable achievement indeed.

The rights protected by the Bill of Rights can be grouped under five general classifications: (1) freedom of religion; (2) the rights of expression and of association; (3) the right to privacy; (4) the right to due process; and (5) freedom from punishment that is cruel and unusual and from arbitrary restraint.

Does the Bill of Rights have popular and widespread support among the American people today?

A 1970 national survey conducted by CBS Television revealed that three-fourths of those polled said they would restrict the right of peaceful assembly for protests against the government; a majority would abridge the right to free speech and free press for criticisms of government, and the right of crimi-

nal defendants to confront the witnesses against them, as well as the guarantee against double jeopardy and the privileges against self-incrimination. One-third of those questioned would permit the police to search homes for drugs, guns, or other criminal evidence without warrants, and one-fifth would permit secret criminal trials.

The survey should cause those who still value the Bill of Rights to redouble their efforts to protect their rights, and to recognize just how much Madison and his colleagues accomplished for this nation. ☸

THE GOVERNMENT AGAINST THE ECONOMY

by George Reisman

(Caroline House Publishers, Inc., P.O. Box 738, Ottawa, Ill. 61350) 1979
207 pages ■ \$12.95 cloth

Reviewed by Roger R. Ream

"This book is about the destructive effects of price controls," the author tells us. "It explains why price controls are destructive in principle and shows how they have actually been destructive in practice."

But the book is more than this. Reisman details how the profit motive and private ownership operate in a free society to produce consequences beneficial to all. He contrasts this with socialism, which de-

stroys the possibility of rational economic activity and maintains control through compulsion. He demonstrates how housing is provided efficiently in a free market, then examines the chaos of rent controls. He explains why shortages cannot exist in a free economy, then explodes the myths surrounding the energy crisis.

But by far the greatest importance of this book is that it comes at a time when "voluntary" wage and price guidelines are upon us and calls are increasing for the imposition of mandatory controls. This book demonstrates once again that you cannot fight inflation (an increase in the quantity of money) by trying to hide one of the symptoms—rising prices—with price controls. Reisman uses fresh arguments and examples to do battle with this worn out economic concept.

One of the blessings of a free economy is the peaceful social cooperation that results from free exchange. Reisman describes the free market as "a truly awe-inspiring complex of relationships in which the rational self-interest of individuals unites all industries, all markets, all occupations, all production, and all consumption into a harmonious, progressing system serving the well-being of all who participate in it." The consumer is sovereign. "The real advocates of the consumers—

their virtual agents—are businessmen seeking profit, not the leaders of groups trying to restrict the freedom of businessmen to earn profits.”

Under price controls, the relationship between buyer and seller—consumer and businessman—is dramatically altered. Price controls cause shortages; rather than sellers seeking and serving buyers, the sellers have more buyers than they can possibly supply. As you may have noticed, your gas station attendant no longer routinely cleans your windshield and checks under the hood. If he loses your business, he suffers no financial loss since there are others in line—more than he can accommodate—hoping to buy his product. In fact, as we observed in the summer of 1979, consumers were offering gifts to gas station owners and taking their cars in for unnecessary tune-ups and minor repairs, all in an effort to keep on good terms with the seller. Price controls allow sellers to disregard consumer desires.

To understand this, it is important to see the distinction Reisman makes between a scarcity and a shortage. “An item can be extremely scarce, like diamonds, Rembrandt paintings, and so on,” Reisman writes, “yet no shortage exists.” Shortages exist when buyers demand more goods than sellers are willing to supply. This can only

occur when prices are not free to reflect the constantly changing demand for, and supply of, the goods being exchanged. In a free market, if demand increases or supply decreases, prices tend to rise. This has two effects: it discourages the marginal uses of a product, while simultaneously encouraging the production of more goods. Controls prevent prices from approaching market-clearing levels.

Editor's Note: For a more extensive sampling of this book, see the article, “Price Controls and Shortages,” page 72. Also, note on page 81 the publisher's special price for the book ordered by FREEMAN readers.

A shortage, in other words, means that prices are held too low. Therefore, “in order to blame the oil companies for the *shortage* [of oil], one would have to show that the oil companies *deliberately charged too low a price for their oil*. That would be the only conceivable way they could have caused the shortage. But that is absolutely absurd. It was not the oil companies that were responsible for too low a price, but the government, with its price controls.”

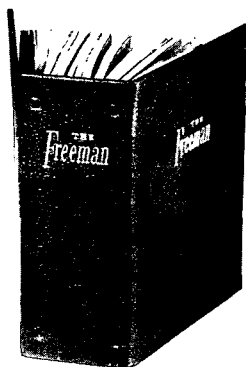
Reisman also shows how government acted directly to limit the supply of oil and was responsible for an

enormous artificial increase in demand for petroleum products.

Reisman's analysis of price controls is hard-hitting. He uses brilliant examples to drive home his points. Unfortunately, his approach is sometimes holistic, rather than focusing on the individual. Also, his explanations of profit and what determines price are unclear. But the overall forcefulness of his conclusions concerning the central thesis

of the book more than compensates and makes this a book well worth reading.

Americans experienced the chaos of comprehensive price controls in the early 1970s and again, on gas and oil last summer. Let us hope that Reisman's arguments get the attention they deserve, so that the destructiveness controls have caused over the centuries will be avoided in the years to come. ⊕



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